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# STABILITY OF INTERNATIONAL EXCHANGE

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## REPORT ON THE INTRODUCTION OF THE GOLD-EXCHANGE STANDARD INTO CHINA AND OTHER SILVER-USING COUNTRIES

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SUBMITTED TO THE SECRETARY OF STATE  
OCTOBER 1, 1903, BY THE COMMISSION ON  
INTERNATIONAL EXCHANGE

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HUGH H. HANNA  
CHARLES A. CONANT  
JEREMIAH W. JENKS  
Commissioners

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## LETTER OF TRANSMITTAL

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*To the Senate and House of Representatives:*

I transmit herewith the report of the Commission on International Exchange, constituted under authority of the act of March 3, 1903, in compliance with the request of the Governments of Mexico and China for the cooperation of the United States in an effort to bring about a fixed relationship between the moneys of the gold-standard countries and the present silver-using countries.

The attention of Congress is invited to the accompanying report of the Secretary of State, whose request for an appropriation of \$100,000 for the completion of the work of the Commission in China and other expenditures incidental to the work of the Commission I heartily indorse.

THEODORE ROOSEVELT.

WHITE HOUSE, *December 15, 1903.*



## LETTER OF SUBMITTAL.

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### The PRESIDENT:

I have the honor to submit herewith the report of the Commission on International Exchange, constituted under authority of the act of March 3, 1903, in compliance with the request of the Governments of Mexico and China for the cooperation of the United States in an effort to bring about a fixed relationship between the moneys of the gold-standard countries and the present silver-using countries.

During the past summer this Commission, accompanied by a commission from the Republic of Mexico, visited the capitals of Great Britain, France, the Netherlands, Germany, and Russia, and there conferred with commissions appointed by the respective Governments of those countries.

The subjects discussed were the benefits of establishing a gold-exchange standard in China, the adoption of a common ratio between the gold unit and the silver coins of the countries and dependencies which are considering changes in their monetary systems, and the diminution, so far as it might be practicable by legitimate economic measures, of the recent fluctuations in the gold price of silver. While eventually the extension of the gold-exchange standard will be sought in other countries, general approval of the policy of its adoption in China and the oriental dependencies of European countries was the immediate object of the Commission of the United States, and in this object they report that they have been entirely successful.

It remains to carry this policy to completion by presenting the conclusions of the foreign commissions to the Chinese Imperial Government, and for this purpose one of the members of the American Commission, Prof. Jeremiah W. Jenks, has gone to China with instructions from you. For the purpose of defraying the expenses of his mission and other expenditures incidental to the work of the Commission an appropriation of \$100,000 is hereby respectfully requested from Congress.

Measures to put an end to the fluctuations of exchange in China appear to be desired equally by the people and Government of China and by the foreign merchants doing business there. The representatives of the Imperial Government, under instructions from Peking, have supported the representatives of the United States and Mexico

at the principal capitals of Europe, and assurances of approval of the objects of the Commission have been communicated to our minister at Peking. A joint petition has recently been received by this Department, which was addressed to our minister and other members of the diplomatic corps at Peking by the chairmen of the Shanghai, Hongkong, and Tientsin general chambers of commerce. This petition states that—

If the treaty powers show their desire to render to China their sympathetic assistance, she may be encouraged to take the initiative in endeavoring to extricate the country from the financial confusion into which it has drifted and to avert the ruin which further inaction seems to threaten.

It is further said:

It is hardly necessary to point out how essential it is to the powers carrying on trade with China, and no less to China herself, that this question of an uniform coinage, as a preliminary step to the establishment of a currency on a gold basis, be taken in hand at once, nor, on the other hand, to demonstrate the dangers attendant on delay. It is only too well known by traders that the constant fluctuation of silver, converting as it may a profitable contract into an ultimate loss, engenders a feeling of insecurity in all commercial transactions which can not fail to hinder the expansion of trade.

There is no doubt that great benefits to the trade of the United States and other exporting and manufacturing nations would result from the adoption of a stable exchange in China in place of the fluctuating silver standard upon which her transactions are now conducted. The experience of Russia and Japan indicates that the introduction of the gold standard increases foreign trade and the investment of foreign capital, while the importations into China from the United States during the past year have greatly fallen off, partly as the result of the violent fluctuations in silver during this interval. The subject is one of material importance to the economic welfare of China and the United States, and the successful termination of the work of the American Commission would tend to enhance materially the influence and prestige of this country in oriental affairs.

Respectfully submitted.

JOHN HAY.

DEPARTMENT OF STATE,

*Washington, December 14, 1903.*

# STABILITY OF INTERNATIONAL EXCHANGE.

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## REPORT OF THE UNITED STATES COMMISSION.

The gradual fall to a lower level of value and the serious fluctuations in the gold price of silver bullion for the past ten years have been slowly but unceasingly undermining the commerce of the important silver-using countries which do not have gold as a basis for their monetary systems. The fact that the importing merchants of such silver-using countries can not reckon upon the cost in their own local currencies of the remittances in gold, which they must use in making settlements for purchases made in gold-standard countries, has been slowly but surely producing domestic commercial paralysis, checking foreign investments for the development of public and private enterprises, and hampering the importation of the products of the labor of the gold-standard countries. The more enlightened nations which suffer under such stress are alive to the importance of rescuing themselves from the disaster which is surely impending, but by reason of individual burdens and general conditions are not strong enough in all cases to place their monetary systems upon the full gold standard with the general use of a gold currency.

These obstacles to the immediate adoption of a gold-currency system, and the pressure for relief from trade conditions which are bad and growing worse, have brought several of the silver-using countries to realize the necessity of taking at least some remedial steps. Such steps, if not so complete as those of the United States and the gold-standard countries of Europe, if they are to have results permanently beneficial, must be at least in the direction of the ultimate adoption of the gold standard.

The Republic of Mexico, whose progress as an industrial nation has been one of the most striking economic facts of the past generation, has been among the first to appreciate the necessity for such action. Realizing the certainty of future compensations for any immediate loss, she has determined, despite the present cost to her silver-mining interests, to overcome the instability of her currency and to place it in proper relation to the systems of the gold-standard countries. She is delaying action temporarily in order to assure greater safety for her own policy by influencing other silver countries to act in harmony with her in improving their monetary systems.

The interests of the Chinese Empire are linked with those of Mexico, because China has been for a long time an important open market for Mexico's coinage. Monetary conditions in China are in the worst possible state of confusion. For this reason, and because of her somewhat antiquated and expensive commercial customs, which serve to obstruct industrial progress and to prolong adverse conditions, the possibilities of the great growth of her trade with the manufacturing nations of the West, with the extension of railways and the introduction of modern commercial methods, has been seriously retarded. To remedy these evils in a permanent and effective manner, Mexico and China, in January last, concurrently addressed the United States, seeking her friendly cooperation and support in an effort to bring about a fixed relationship between the moneys of the gold-standard countries and the silver-using countries. It was this request which resulted in the appointment of the United States Commission on International Exchange, whose report is herewith submitted.

Under the appointment made in accordance with the act of Congress of March 3, 1903, the American Commission, in cooperation with a Mexican commission, took up the work as outlined in its letter of instruction, and has presented the subject to the governments of Europe most closely interested.

#### THE ACTION OF OTHER GOVERNMENTS.

The Governments of Great Britain, France, Holland, Germany, and Russia each in turn appointed Commissioners to meet the American and Mexican representatives in their several capitals. These Commissioners have in all cases been men of eminence in their respective countries by reason of their official and financial positions in connection with the public treasury, the national banks, and those banks having the largest business in the Orient, and at times men of wide reputation as specialists in monetary problems. Thus, in three countries—France, Germany, and Russia—the head of the national bank of issue was chairman of the Commission. In the Netherlands the corresponding official was a member of the Commission, and the chairmanship was held by a former minister of finance and prime minister, who is everywhere recognized as at once the foremost economist and practical financier of Holland. In Great Britain one of the members of the council for India and the English negotiator of the new commercial treaty between Great Britain and China acted as chairman. In every country officials of their representative oriental banks—in Great Britain, the Hongkong and Shanghai Banking Corporation; in France, the Bank of Indo-China; in Germany, the German-Asiatic Bank; in Russia, the Russo-Chinese Bank—sat on the Commission, three of the directors of the latter constituting a majority of the Russian Commission.

At all of the capitals visited, excepting The Hague, there have been

present at the conferences one or more secretaries from the Chinese legations, who have taken notes of the proceedings. In London Sir Halliday Macartney, counsel for the Chinese legation in London, and Ivan Chen, secretary of the legation, attended the meetings and signed the points of agreement with the Commissioners. Frequent consultations were held with the Chinese ministers at these capitals, usually at their request, and an intelligent interest was shown by them and a disposition to forward the work of the Mexican and American Commissions, which gave evidence of the sincerity of the Chinese Imperial Government in its appeal to the United States and its appreciation of the importance of the benefits sought for China.

#### PRIMARY PURPOSES OF THE COMMISSION.

The first task set for itself by the Commission of the United States was to secure from the leading powers of Europe interested in the Chinese indemnity or in oriental colonial enterprise approval of the principle of the introduction of the gold standard into China. While the advantages of such a step are obvious, its accomplishment offers difficulties, arising from the lack of economic experts in China, the heavy demands already made upon her financial resources, the division of authority in relation to the prerogative of coinage, and the relations of China with European powers. Under these circumstances some degree of suggestion and cooperation from abroad seemed to be required to inaugurate a new currency system upon foundations which should be not only stable, scientific, and practical in fact, but capable of impressing that fact from the beginning upon the business world.

It seemed also to be obvious that if definite measures were to be taken to place China upon a gold standard they must, under existing conditions, be taken by concurrent action of the leading powers, or at least with their approval. The action of any single power in suggesting a monetary plan to the Chinese Imperial Government and offering the aid of its own credit or that of its financial institutions for carrying it out would naturally and almost inevitably excite the distrust of other powers and lead to their opposition. The Government of the United States, as was frankly admitted at several European capitals, is in a favorable position to take the lead in such a matter, both on account of China's invitation and because it is not suspected of seeking territorial extension or special privileges in China. Even our Government, however, could probably not, without arousing serious opposition, propose and carry out a monetary measure for China exclusively on its own plans and with the support solely of American financial institutions.

For these reasons it was felt that the first essential step in giving to the Chinese Empire a sound currency was to present the subject to the leading powers having commercial and financial interests in the Orient, with the object of bringing into a clear light the advantages

of the proposed measure, demonstrating to those powers the impartial motives of the United States and securing their approval of the general project and of the initiative of the American Government.

While many other steps will be required before the gold standard can be in actual operation throughout the breadth of the Chinese Empire, it was felt that the one step absolutely vital to the inauguration of the system was that approval of the principle should be first secured. In this fundamental matter the Commission has been completely successful. Approval of the principle of a national gold-currency system for China has been given by Great Britain, France, the Netherlands, Germany, and Russia with a completeness which has removed the first great obstacle to bringing the monetary system of the Chinese Empire into harmony with that of other advanced commercial states.

#### ECONOMIC BENEFITS OF THE PROPOSED REFORM.

It was natural that the Government of the United States should welcome the proposition to put China upon the gold basis and should look for the cordial cooperation of the leading manufacturing and exporting nations of Europe, because such a measure promises so much for the extension of their future trade and their opportunities for safe investments. The present uncertainties, due to fluctuations in exchange, in regard to the profits upon commercial operations between the gold countries and the silver countries would be brought to an end if these fluctuations were brought within the usual limits between two gold countries. Under present conditions the importer in a silver country is compelled to live from hand to mouth and to greatly restrict his orders for goods given to European and American exporters. Investments of capital are even more hazardous, since a fall in the price of silver equal to that which occurred within a few months in 1902 would wipe out profits of 15 or 20 per cent and reduce by that amount the value of an investment made in a silver country if it were sought to withdraw it in gold.

The adoption of a stable exchange, by remedying these conditions, would unquestionably stimulate the importation into China of the products of European and American mills and factories. Many of these importations would be in the form of advances of capital for the development of the rich natural resources of China. These investments would be made in the form of rails and rolling stock for new railways, equipment for factories, and supplies for the laborers engaged in extending railways and modern industrial methods throughout China. The fact that such exportations from the manufacturing countries would not depend primarily upon the increased consuming power of the Chinese people, but upon the surplus of capital of the rich countries seeking investment, would greatly stimulate this movement in the earlier years. This was the experience of Russia and Japan when they adopted the gold standard. In the case of Russia,

imports of foreign goods rose from 416,000,000 rubles (\$210,000,000) in 1890 to 626,000,000 rubles (\$315,000,000) in 1900—an increase of 50 per cent in ten years. In the case of Japan the imports of foreign goods rose from 81,000,000 yen (\$40,000,000) in 1890 to over 300,000,000 yen (\$150,000,000) in 1900—an increase of about 200 per cent, even when allowance is made for the reduced value of the yen by the fall in silver.

If a ratio of increase corresponding to that in Japan were to occur in the imports of foreign goods into China, such imports would rise within ten years from 50 cents to \$1.50 per capita, and a market would be opened for \$400,000,000 worth in American gold of the products of Europe and America in addition to the present volume of their trade with China. While it is probable that the development of the commerce of China might not be so rapid as that of Japan, there can be no doubt that the opportunity for large trade and safe investments offered by the adoption of a uniform currency in China based upon the gold standard would afford benefits to the manufacturing and exporting nations which abundantly justify earnest efforts on their part to secure such an important economic result.

Already, at about the date of the appointment of the Commission, the importance of stable exchange in China had become a subject of discussion in the Orient and of action by several commercial bodies. Typical of these expressions is the resolution adopted on April 18 last by the Shanghai General Chamber of Commerce:

“Having in view the fact that silver is subject to violent fluctuations and that China’s financial obligations, national and commercial, are now mainly, and in future will probably be entirely, with gold-using countries, this chamber is of opinion that the treaty powers should urge the Chinese Government to take the necessary steps without delay to provide for a uniform national coinage as a first step toward establishing the currency of this country on a gold basis at as early a date as practicable.”

The high authority of Sir Robert Hart, inspector-general of the imperial maritime customs, may also be invoked in favor of securing for China the great commercial and fiscal benefits of a gold standard. In a paper presented to the board of foreign affairs and printed in the North China Herald of July 3, 1903, Sir Robert Hart declares:

“It would be much wiser for China to maintain a gold standard instead of a silver one, as at present, since silver has dropped down to such a degree and moreover possesses no certain or uniform exchange, even within the limits of a single day. The hundreds of trades are all disastrously affected by the present state of the currency, while the Government having to pay its foreign debts in gold both country and people are being plunged into the depths of financial distress. The conditions pictured in the foregoing therefore compel one to seek some plan whereby they may be ameliorated, and so make it that China, while still using a silver currency, shall so fix a uniform exchange between silver and gold that there may be no danger of uncertain fluctuations.”

Closely related to the project of establishing a definite monetary system for China on the gold basis are several subjects relating to the monetary systems of other countries of the Orient, most of which are dependencies of the leading European powers. These countries include the Philippines, under the authority of the United States; the Straits Settlements, under the authority of Great Britain; Indo-China, under the authority of France, and the dependencies and colonies of Germany in East Africa and Asia. In support of the general objects sought the Commission presented, therefore, to the European powers:

1. Suggestions for a monetary system for China.

2. The subject of approximate uniformity in the relationship between the gold unit and the silver coinage in China and in such other countries as may hereafter establish new monetary systems based on the gold standard.

3. The subject of establishing a certain regularity in such purchases of silver bullion as are actually required for coinage purposes, with a view to aiding the gold price of silver and eliminating, as far as practicable, the extreme fluctuations in price incident to speculation, thus rendering the adoption of the gold-exchange system in countries whose credit needs strength much more easily attainable.

#### MONETARY PLAN FOR CHINA.

The problem of introducing a new monetary system into China is materially different from that which, under similar circumstances, could confront any of the prominent European countries or any of the colonies of the Far East. In the first place, China at the present time has no national monetary system. In the ports of Hongkong and Shanghai and the neighboring country British dollars are in circulation and Mexican dollars are more or less used. In Shanghai, and especially in Tientsin, Chefoo, Peking, and other northern cities, the old Mexican dollars are regularly used, although in connection with them the silver tael, passed by weight, is also found. In the interior one finds few silver coins; silver taels or syces are employed, by weight, while for most purposes the common people use only copper. In some of the more remote districts only a system of barter is employed. Under such circumstances it is evident that a new monetary system must be introduced first in the places where coins are used and must then gradually make its way with the progress of trade into the interior. Moreover, there is no coin now employed in China which could be adopted as the basis of a new money without inspiring international jealousies. The entire system must be created.

It is extremely desirable that any plan adopted should have the hearty cooperation of the importing and exporting merchants, both Chinese and foreign, and of the native and foreign banks. In order to secure the cooperation and confidence especially of these foreign

governments and business men, it seems necessary that the Chinese Government should, for the time being at least, put the administration of the new system, when it shall have been planned, into the hands of foreigners of sufficient ability and reputation, so that they will have the complete confidence of these foreign governments and investors. It is generally recognized that, owing to the fluctuating and at times possibly conflicting interests of the different great powers, there is danger of awakening international jealousies, which might interfere seriously with the success of any plan which might be adopted. On this account, as well as from the necessity of maintaining unimpaired the sovereignty of China, it would seem essential that foreign appointees be not named by foreign governments, but be simply men of such reputation that their appointments would be acceptable to the foreign governments. They should be appointed by the Chinese Government and should in the full sense of the word be officials of China working in her interests.

So much independence has from time immemorial been left to the viceroys and other local officials in the different Provinces by the Central Government that in order to insure the complete success of any general undertaking in China the determination of the Central Government needs also the cordial cooperation of the different viceroys. There seems little reason to doubt, however, that as regards the most important of the coast Provinces this cooperation can be secured for a monetary system which will stabilize exchange.

It will thus be seen that the introduction into China of a new monetary system presents rather unusual difficulties, but, inasmuch as a system which should fix the rates of exchange would prove of so great benefit not merely to the foreigners who have trading interests in China and to the Chinese who are engaged in foreign trade, but likewise to every Chinese taxpayer throughout the whole of China, there seems reason to believe that within a reasonable length of time a new system, if wisely inaugurated and reasonably, honestly, and well administered, would so commend itself to the people that it would rapidly extend into the country. The Chinese Government, in its petition to the United States Government for assistance has recognized these great advantages, and a new system wisely planned will doubtless receive the cooperation both of the Central Government and of the more intelligent, able, and influential of the viceroys and other Chinese business men.

In the general plan for China, outlined briefly in the appendix, it is suggested that the Chinese Government not merely appoint foreigners as officials to fill some of the most important positions in the administration, but that the Government also open the accounts of the comptroller of the currency to accredited representatives of the powers interested in the indemnity. Such a concession, unusual in its nature, should only be made provided the Chinese Government

itself is willing, but inasmuch as confidence is one of the essential requisites to success, it would doubtless be wise, for a time at least, freely to publish in every possible way all of the details of the administration of the system, it being, of course, understood that this in no way involves the making public of the fiscal management of the Government itself.

#### CHARACTER OF THE NEW SYSTEM.

The suggestions made contemplate the adoption of a monetary system consisting chiefly, if not entirely, of silver and copper coins, to be maintained at a parity with gold. The economic condition of the country is such that gold coins would not be suitable and gold itself would be used only in payments to foreign creditors. As has been intimated, in the interior of the country most of the inhabitants use only copper, their business transactions involving often at times a sum amounting to only 1 cash—that is to say, only a trifle more than one two-thousandths part of the American dollar. Coins worth, say, 50 cents American would cover the transactions of a workman's family in actual money for perhaps a month, excepting in the seaboard provinces, and even there a month's wages would often amount to considerably less than \$5. It is obvious, therefore, that the use of gold coin would not be practicable, even if it were within the official and economic power of China to draw the necessary stock of gold from the western nations, because gold would not be practically divisible into the small coins required for the daily transactions of the Chinese people.

The universal opinion of all European powers and experts, however, is none the less that the system should be placed on a gold basis in order to avert present difficulties in dealing with gold-standard countries. The only difference of opinion concerning the matter that has appeared among the experts is that regarding the best methods of beginning and of carrying out the plan. To the American Commission it has seemed best to begin the new system in some of the treaty ports and seaboard provinces, but to begin on a gold basis. Owing to the large number of coins that it would be necessary to provide before the system was complete, their introduction into general circulation must in any event be gradual. Owing, also, to the system of government, it would be entirely possible to give the system legal effect in the different provinces or even in different cities separately, as if they were different states, and then, as rapidly as provisions could be made, to give it legal effect in other adjoining cities or provinces. Since, as has been said, there is no currency system throughout China, there are no coins the redemption of which will be obligatory upon the Government, as is the case in the Straits Settlements and French Indo-China. In this regard, at any rate, China would escape the difficulties which confronted the government of British India in 1893 in the necessity of raising to a fixed par \$500,000,000

worth of silver rupees and would have a decided advantage over other countries with an established monetary system, where a similar legal and moral obligation in regard to the existing currency would have to be considered.

The system should be placed on the gold basis at once, because in that way the foreign nations and China herself especially will begin to get the benefits at once. By such action trade will be encouraged, foreign investments will be more readily secured, the beneficial influence of foreign business methods will sooner be felt, and the Government itself will secure much earlier the great benefits of an increase of revenue. Should the system be begun on the silver basis, with the intention of establishing the silver coins later on a parity with gold, there would be no appreciable benefit to international trade until this parity should be established. While the interior trade of the country would to some extent be encouraged by a national currency upon any uniform basis, a change in political or economic conditions in China might postpone for many years the benefits sought by the Chinese Government in establishing stable monetary relations between China and foreign countries. Moreover, the change in the system from an established silver basis to gold would inevitably lead to speculation to a much greater degree than if the new system were to be introduced at once on the gold parity.

#### MEANS OF MAINTAINING PARITY.

The most difficult and the most important question in connection with the establishment of a new system is the maintenance of the parity of silver coins with gold.

In this regard the experience of other countries is suggestive. The plan proposed for China is based upon what is commonly called the gold-exchange standard, similar to the plan recently adopted by the Congress of the United States for the Philippines and to the Dutch plan, which has been in operation in the Netherlands and the Dutch East Indies for twenty-eight years. The successful maintenance of this plan in the Netherlands for so long a period, covering fluctuations of more than 50 per cent in the gold value of silver, and the more recent success of a similar plan in British India, in the face also of great fluctuations in silver, dispel many of the doubts which might arise, in the absence of such historical evidence, of the practicability of the plan recommended for China. In the Philippine Islands the issue of a coin has been authorized of the size and fineness of the Mexican silver dollar, which has been given the legal value of 50 cents in the gold money of the United States. Although the silver bullion which the coin contains is worth about 20 per cent less than the legal value of the coin, these coins are now being paid out by the government of the Philippine Islands at this legal value and are finding prompt acceptance in the channels of trade. In the Republic of Peru

a system similar to that here recommended was adopted in 1901, in compliance with provisions which will be set forth in an appendix. Under its operation silver coins of about the weight of the Mexican peso are being successfully maintained at a fixed gold par above their bullion value, and there can be no doubt that they will continue to be so maintained so long as the Government makes proper provision for their protection. A similar system has recently been adopted by the Russian Government for Bokhara, whose successful operation is set forth in one of the appendixes to this report, and is about to be adopted by Mexico for her own currency, by great Britain for the Straits Settlements, and by France for Indo-China. For the maintenance of these coins at their full legal value, the Government relies upon the three principles which have been applied so successfully in Holland and India and are here recommended for China:

1. Government control of the amount of the issues, so as to keep them within the demands of trade for legal-tender money.
2. Acceptance of the coins at their legal value for public dues and private debts.
3. The sale of drafts at or near par upon gold-exchange funds kept at the financial centers of the world.

Provided the system for China is first introduced in certain cities or provinces where the business conditions through the experience of years are well known, it will not be a difficult matter to estimate the amount of coins that will ordinarily be needed in order to supply business demands. Under the circumstances, if the Government makes the new coins the sole legal tender for the payment of Government obligations, and if the quantity of coins is properly limited, the strong demand for the coins made by the Government and by business needs as compared with the limited supply will probably be sufficient for a limited period at least to maintain parity. As the supply of coins increases the Government should, of course, make them legal tender for the payment of private debts, thus increasing somewhat further the demand.

The Government should also, probably from the beginning, provide a gold reserve, so as to meet any demand for gold which would be necessary in order to maintain substantially the parity of the coins with the gold. This demand, however, need not be large. As has been already explained, there would be no proper demand for gold except for meeting foreign obligations. For that purpose gold exchange on Europe or America would be even more advantageous than a gold reserve held in China itself. In consequence, the Government should keep a gold credit in Europe. It would not, however, be necessary for the purpose of maintaining the parity of the silver coins with gold that the Government should obligate itself to meet all demands for gold for export purposes or for the payment of all foreign obligations.

## INFLUENCE OF THE BALANCE OF TRADE.

While China has been on the silver standard, her foreign obligations have been paid in part, it is true, by the gold which has been mined and shipped out of the country as a commodity. Within the last two years also, since the payment of the indemnity began, considerable amounts of silver have been exported, but in the main the payment for imports has been met by exports. While accurate statistics are not available to show the balance of trade, there seems no reason to doubt that in the future, when the country is placed on a gold basis, payment of obligations due abroad may usually be met, as in the past, without the export of much gold, provided proper business judgment be employed. In dealings between gold countries any tendency toward a drain of gold is met, as in England, by an increase in the rates asked for foreign exchange and in the rate charged for the use of money. An increase in the rate of discount by a fraction of 1 per cent is usually sufficient to check decidedly the drain, and a strong increase in the rate within a comparatively short time effectively stops it, inasmuch as it makes it more profitable to leave capital in the country than to send it elsewhere. It has also the effect of lessening the price of commodities and, in consequence, of making them more available for export than is gold itself, which, of course, in international trade is only a commodity.

If, therefore, the Government of China were to obligate itself to sell gold exchange only when the rate had advanced, say, 1 or  $1\frac{1}{2}$  per cent above the normal charges, there would probably be very slight demands upon its gold reserve held abroad unless there were an overissue of its silver coins. In case of such overissue—if the demand for foreign exchange reached this higher rate on account of the depreciation of the coins—the amount paid in to purchase the bills should be held out of circulation by the Government until the scarcity of the coins themselves tended to check the demand for exchange by making relatively lower prices for goods; or, in other words, by making it cheaper to pay foreign obligations in other ways than by using the silver coins to buy gold exchange. If this plan were followed of having the Government itself, either through its comptroller or through a national bank established in part for the purpose, not obligate itself to supply gold on demand for foreign exchange, but merely use its gold reserve for the purpose of protecting the parity of its currency system, there seems every reason to believe that the amount of the gold reserve would not need to be excessive and that the maintenance of the parity would be entirely within the power of the Chinese Government. Regulation of the foreign exchanges by providing a fund for absorbing the excess of the national currency in the market was one of the first measures successfully taken by Russia in preparing, in 1894, for the restoration

of a specie basis and is the course now under consideration by the Government of Spain for accomplishing the same object.

It should also be kept in mind that in beginning the system on a gold basis there would come to the Chinese treasury in the form of seigniorage, from the beginning, a profit at the recent price of silver of 15 to 20 per cent on the face value of all the silver units coined, and a still greater percentage on the minor coins, all of which profit might readily be turned into the accumulation of a gold reserve. Furthermore, if the Government were to offer to furnish silver coins on demand at any time for gold paid in at the fixed rate of exchange (as is done in British India), there would in all probability—so long as the coins were scarce—be the same demand for these silver coins as has been the case in India, which would again contribute to maintain the gold reserve.

It should also not be forgotten that the maintenance of the parity is chiefly only a question for the seaboard provinces and only for the standard coins. So far as minor coins are concerned, their parity would normally be maintained, as in all gold countries, by putting a proper limit on the amount issued in the interior of China. Where foreign traders are not regularly at work the entire business demands for many years to come will be only for silver and copper coins. The exchanges will be only of silver and the question of the parity with gold will rarely be raised.

The most important of the general principles governing the introduction of a gold system into China have thus been set forth. The details regarding the organization of a national bank, which might be of very great importance; regarding the degree of discretion that should be left to different officials; the methods of securing the support of the viceroys and of the Chinese banks, and other local questions can, of course, only be settled by the proper authorities at the time of the introduction of the system. On the principles above stated the decided majority of the European experts consulted by the American Commission are agreed, and there seems good reason to hope that with the hearty cooperation of the Chinese Government, which can probably be counted upon, a system like this one outlined can within a reasonable length of time be put into successful operation.

#### RELATION OF BANKS TO THE REFORM.

The introduction of a new currency system into China and its successful operation, at least during the period of transition from the old system to the new, would almost inevitably depend in a large degree upon the cooperation of the banks doing business in the country. It might appear at first blush that they would oppose a measure which tended to reduce the fluctuations of exchange, because it might reduce the profits which they now derive from these fluctuations. There were indications in the opposition made to the Philippine cur-

rency bill at the first session of Congress at which it was presented that this view was more or less influential, but the serious fluctuations in exchange caused by the changes in the price of silver during the past two years have apparently led to the adoption of a broader view. Members of the governing boards of the banks doing business in the Orient sat upon the commissions appointed in London, Paris, Berlin, and St. Petersburg. While their practical experience, derived in many cases from prolonged banking service in the Orient, led them to lay stress upon the obstacles to be overcome in persuading the Chinese people to accept a new monetary system, they all ultimately concurred in the conclusions reached at these capitals.

The banking interest is an important one in all commercial countries and deserves the same consideration (and no more) as other factors of equal importance in the national economic life. Fortunately for the successful inauguration of a new monetary system in China, the leading foreign bankers seem to have come to the conclusion that what they may suffer by the loss of profits on exchange operations will ultimately be compensated by the increased volume of business which will grow out of the improved economic conditions of the country. It is probable that profits on exchange would be affected to only a moderate degree by the inauguration of the gold standard. The opportunity for profit which arises in the exchange between two gold-standard countries would continue to exist in the exchange between China and the outer world, with the probability that at least until the new system had successfully stood the test of adverse conditions the variations in rates would be somewhat wider and the opportunities for profit greater than between two countries whose gold-standard systems have been longer established and whose economic conditions have become more firmly settled than those of China.

One of the most important practical considerations in this connection is the fact that the introduction of the new system must, in the nature of the case, be gradual. If the gold standard could be made universal throughout China within a few months, losses would probably fall upon the banks which they would find it difficult to recoup; but the gradual extension of the field of more stable exchange from city to city and province to province would permit a gradual readjustment of banking business to the new conditions. In the introduction of the new currency, and in the operations necessary for the creation of a gold fund and the maintenance of the parity of the new coins, the aid of the banks would be required. From all these transactions they would receive a legitimate profit derived from the services rendered by them to the industrial interests of the country. The extension of those interests, moreover, by the growth of trade, would mean an increased demand for loans, a larger volume of drafts, transfers, and bills, and the introduction of foreign capital upon a scale which would tend to demonstrate that the interests of the banks could not be permanently separated from the progress of the welfare of the country.

## THE CHINESE INDEMNITY PAYMENTS.

In connection with finding adequate financial resources for creating a gold reserve and paying the initial expenses of introducing a new currency system into China, the subject of the indemnity due by China to the powers under the protocol of 1901 was presented by the American Commission to the other powers interested. The commissions appointed to deal with the other branches of the subject were not authorized to discuss this matter, but it was discussed in each case with representatives of that department of the government having it in charge. The essential question presented was whether, in view of the considerably increased burden imposed upon China by the recent fall in silver (if she were required to make the indemnity payments on the gold basis), the powers would not agree to accept payment on a silver basis for a term of years if the Chinese Government would bind itself to reimburse the difference at some future time. With a single exception, there was a disposition to make this concession if it appeared that China would take effective steps, acceptable to the powers, to give stability to her monetary system. In the excepted case there was apparently a disposition to consider the matter if the other powers would couple with it the revision of the present scale of duties on imports into China. The assurances received on this head were all that were expected or desired by the American Commission. They were concerned with the indemnity only in its relation to the creation of a new monetary system, and it seemed clear that temporary remission of a part of it would be more than compensated to each power by the benefits accruing in the relations of its merchants and financiers with China. This being the case, it did not seem desirable to go further until the project of a national currency for China had assumed such a definite form as to permit a precise understanding of the use to which the Chinese Imperial Government would put the amounts remitted on the indemnity payments.

The suggestion that the remission of a part of the indemnity in connection with the introduction of a new monetary system be made for a limited time only was made because under such a system the financial resources of the Chinese Imperial Government are likely to be materially increased. As soon as the taxes are collected in terms of the new money, they will probably afford a larger gold return than under present conditions. In any case, at whatever point the currency is given stability, further losses in the proceeds of taxation caused by the fall in the gold value of silver will be brought to an end. It is also reasonable to assume an increase in the public revenues from the increased stimulus given to trade and industry by the adoption of a stable standard and the inducements thereby afforded for foreign investments in China.

## BENEFITS OF A UNIFORM RATIO.

Comparative uniformity in the coinage ratio to be adopted between the gold unit and the silver coins to be issued in different countries which are about modifying their monetary systems was recommended by the American Commission and was generally approved. Present conditions seem to afford unusual opportunity for a certain degree of harmony in the policy to be pursued, because so many countries in the Orient and elsewhere are considering a change in their monetary systems. The United States are about putting in force a new law for the currency system of the Philippines; Mexico is preparing for the reform of her monetary system upon a gold basis; Great Britain is taking steps for establishing a fixed exchange in the Straits Settlements; France is doing the same in Indo-China, and the Chamber of Commerce of Hongkong is considering a change in the system in operation there. These countries are all taking action or about to take action, independently to some extent of the policy of the Chinese Imperial Government, but it would obviously be for the interest of all if their systems and that of China were brought into some degree of harmony.

The use of the term "ratio" in this connection is not intended to imply that the adoption of a given ratio of weight would in itself fix the relation of value between the coins and the gold unit, as is sought by the policy of free coinage of two metals. The term is used here simply to define the relationship between the weight of the silver coins and the gold unit. It is not proposed that the new coins shall depend upon this ratio for their value; that value will depend upon the measures taken to maintain the coins at par with the gold unit.

The considerations to be presented regarding the ratio may be discussed under two heads—(1) the reasons for adoption of the ratio of about 32 to 1; (2) the reasons why comparative uniformity of policy is desirable.

The ratio of about 32 to 1 was adopted in the Philippines and has been recommended for other countries, because it seems to conform to the requirements of existing conditions. In the introduction of a new monetary system the coins should conform as nearly as other considerations permit to the actual market value of the metal which they contain and to the unit to which the people have become accustomed in its relation to the scale of wages and prices. The ratio of 32 to 1 does not depart widely from the present and recent gold value of the silver currency in circulation in the Orient. It represents the average price of silver for the ten years ending with 1902. It was also the actual ratio of about two years ago and of several preceding years. The adoption of a unit like this would have the advantage both of continuing without a break nearly the existing scale of wages and prices in retail transactions and of doing substantial justice in the fulfillment of contracts made under the silver standard. The slight

increase in the purchasing power of wages which might result would surely do no harm.

What has just been stated regarding the coinage ratio needs to be qualified by certain other considerations which militate against the adoption of the exact relation of a given moment between the market value of silver and gold. The adoption of the ratio of any given moment would be safe only upon the assumption that silver would continue to fall in value, or at least would never under any circumstances rise above its gold price at the date when such relation was established. This assumption can not safely be made. Silver rose in the interval between January last and April last from  $21\frac{5}{16}$ d. to about 25d. and has since risen to  $27\frac{1}{2}$ d. This was an increase of nearly 20 per cent in four months and nearly 30 per cent in eight months. Such fluctuations indicate the propriety of fixing a ratio which shall permit certain changes in the value of silver bullion without causing disturbance of the monetary system.

#### DANGER OF GIVING TOO HIGH A COINAGE VALUE TO SILVER.

There are certain risks in adopting a silver coin of a weight very much less than its bullion value, and there are risks of an opposite character in adopting a coin of a weight conforming too closely to the market value of the bullion which it contains. The dangers in the first case are much less serious than in the second. If too high a value is put upon the silver bullion in the coin—that is, if the coin contains very much less silver than it purports to represent in face value—then there will be a wide margin of difference between the gold value of the coin as coin and as bullion. This is the case at present with the coins of the United States, issued at the ratio of 16 to 1; with those of the countries of the Latin Union, issued at the ratio of  $15\frac{1}{2}$  to 1, and with those of Russia and British India, issued at the ratio of about 24 to 1.

The two chief dangers in such a system are the private coinage of pieces of full weight and the strain upon national credit required to maintain the legal coins at their full value, since business confidence is an important factor. The first danger is not one which the advanced civilized countries have thus far found a serious menace to their monetary systems. The second danger has sometimes threatened them when, as in the case of the United States, the coinage was permitted to become too large. This danger would be much graver in the case of a country whose currency consisted chiefly of silver coins, without a gold circulation, and especially in one whose financial standing was not high. It seems to be desirable, therefore, in countries whose police system is not thoroughly organized to prevent and detect counterfeiting and whose credit is not of the highest order, to depart from the ratio of European countries and the United States and to choose a ratio more closely approximating the bullion value of the coins.

DANGER OF FIXING TOO LOW A COINAGE VALUE FOR SILVER.

It remains to deal with the opposite type of risk involved in the choice of a ratio giving too low a value to silver. This risk consists in the fact that under such a system a slight rise in the price of silver might derange the entire monetary circulation by making it more profitable to export the standard coins as bullion than to employ them as coins. If, for example, the Government of Great Britain, when the subject of giving stability to the currency of the Straits Settlements was first discussed last December, had seen fit to adopt a ratio corresponding to the price of silver at that time it would have adopted a ratio of about 40 to 1. This ratio would have given to the British dollar a value of about 40 cents in the gold currency of the United States. The rise in the price of silver which occurred in April last would have raised the market ratio between the metals to about 36 to 1 and would have raised the value of the silver bullion contained in the British dollar to about 45 cents. It is clear that the holder of one of these coins, if he had found its gold value in the Straits Settlements to be only 40 cents and its value as silver bullion at Hongkong or in London to be 45 cents, would have gathered up every such piece within his reach and sent it to the market where it could be sold as bullion at the higher price. The result, if such conditions had continued for any appreciable time, would have been to deprive the Straits Settlements of their currency and to bring great derangement into business transactions.

The operation of these principles can perhaps better be studied by the aid of the following table, furnished by the Bureau of the Mint, showing the gold price at which silver bullion stands at different ratios and the value of the bullion contained in standard silver dollars of the United States and Mexican pesos at such prices. It may be remarked that the bullion value of the new Philippine peso conforms approximately to that of Mexico.

*Bullion value of coins at various ratios.*

Ratio.	Price of silver per ounce, London standard, .925 fine (exchange \$4.8665).	Price of silver per ounce, New York standard, .999 fine.	Value of silver bullion in United States standard silver dollar, .900 fine.	Value of silver bullion in the Mexican peso, .902 fine.
	<i>Pence.</i>			
16 to 1.....	58.979+	\$1.2929+	\$1.000+	\$1.015+
20 to 1.....	47.145+	1.0335+	.799+	.812+
24 to 1.....	39.496+	.8613+	.666+	.676+
28 to 1.....	33.675+	.7382+	.570+	.580+
30 to 1.....	31.410+	.6890+	.532+	.541+
32 to 1.....	29.464+	.6459+	.499+	.507+
34 to 1.....	27.735+	.6080+	.470+	.477+
36 to 1.....	26.193+	.5742+	.444+	.451+
40 to 1.....	23.375+	.5168+	.399+	.406+

At the present price of silver the ratio of 32 to 1 gives to the proposed silver coins a face value higher by about 10 per cent than their value as bullion. This margin has been suggested in order to permit a certain increase in the price of silver bullion without deranging the monetary systems of the countries where this ratio may be adopted. A fall in the price can only affect the security of the currency by impairing confidence in the ability of the issuing government to maintain its value. It can not have any tendency to send the coins to the melting pot. An increase in the price would have a much more disturbing effect and is guarded against in the adoption of the ratio of 32 to 1 by a margin which will permit silver bullion to rise in price by about 3d. per ounce before it will become profitable to melt the coins for bullion. The danger that a still further rise in the gold price of silver might occur, which seems improbable in itself in view of the course of silver during the past ten years, can be further guarded against by the cessation of purchases of silver for coinage purposes by those governments which adopt this ratio when this price is reached.

#### BENEFITS OF UNIFORMITY IN ORIENTAL COUNTRIES.

It is in the enforcement of the latter policy that uniformity has seemed desirable among the nations which are about reorganizing their monetary systems and which, in consequence, are likely to enter the market more or less frequently in the near future as purchasers of silver bullion. If the ratio of 40 to 1 should be adopted in one case, 38 to 1 in another, and 36 to 1 in another, the governments of the countries having the ratios giving the higher value to silver would be indifferent to the conditions in countries giving a lower value to silver and would continue to purchase bullion for coinage purposes after silver rose above the lowest ratio. Thus, if the Straits Settlements had adopted the ratio of 40 to 1 they would have been compelled to suspend purchases of silver bullion when silver rose in value above that ratio, but other governments would have steadily continued their purchases, with the probable effect of maintaining and perhaps further advancing the price of silver. The monetary system of the Straits Settlements would then have been wrecked by the export of their coins as bullion without invoking any sympathetic action on the parts of governments having a different ratio. If, on the other hand, the ratio were substantially the same in all these oriental countries, purchases of silver bullion would be suspended in all at substantially the same point, and such suspension would have the effect of arresting the rise in price. It is for this reason that comparative uniformity of ratio has been suggested to the different governments directly interested in the question, and that the proposal has met their general approval.

It was clearly stated at each capital that the United States did not propose to ask any government whose monetary system was already

established on the gold basis to change its ratio. It was also clearly stated that in suggesting comparative uniformity of ratio there was no desire to propose a monetary union or absolute uniformity in coinage systems even among the countries of the Orient. It was felt that the experience of European countries in this respect did not justify such a measure in the present state of national credit and of monetary science. Whatever may be the benefits of a uniform currency system for several countries, it has the disadvantage that it makes the system of all depend to a large degree upon the sound financial management, the credit, and the good faith of each separate party to the union. If a common coin were in use in all the countries of the Orient, the failure of any one to maintain the integrity of that coin would bring derangement into the currency systems of all the others by sending to them the coins of the defaulting country, because these coins would continue to be full legal tender at their face value in gold in all the countries which were members of such a union. For these reasons at each capital a monetary union was not suggested or favored. There was sought simply the adoption of such a relationship between the silver coin and the gold unit that each government would be interested by the inevitable course of events, without any formal agreement, to check its purchases of bullion at the point where the price of silver threatened disturbance to its monetary system.

#### CONSIDERATIONS REGARDING THE PRICE OF SILVER.

The Commission on International Exchange was appointed to secure, as far as possible, stability of exchange rates between the gold and the silver using countries. The exchange between gold and silver countries now depends fundamentally upon the fluctuations in the gold price of silver. Any step contributing toward stability in the gold price of silver bullion would, therefore, in itself tend to diminish the fluctuations of exchange, independently of the more important object of separating the monetary systems of the silver-using countries from the silver standard and placing them on the gold standard. Moreover, as has been explained in a preceding paragraph, a gold-exchange system in silver-using countries can be established and maintained much more easily provided the price of silver bullion remains reasonably steady. A fall in the price of silver bullion would require a much larger gold reserve to maintain the parity between the token silver coins and gold, and this would prove a much greater burden for a country whose credit is low than would be the case provided the price of silver remained steady.

Even in the case of countries now upon the gold standard, but whose currency system contains a large volume of silver tokens, it may be worth considering whether further depreciation in the price of silver bullion might not increase the difficulties under which they have labored in recent years by further impairing the intrinsic value of

their silver coins, including the large stocks held as reserves by their banks of issue. On the other hand, a sudden rise in the price of silver might result in exportation or melting of the coins. It is thus seen that on both hands it is very desirable that the price of silver bullion should remain reasonably steady. Whether it is high or low, as compared with gold, is of less consequence. It is with relation to this subject of steadying exchange, with the resulting benefits to international commerce, that the question of the price of silver has been considered and not with special reference to benefiting the silver industry.

For several years past there has been a remarkably steady output of silver, and this output seems, on the whole, to have been reasonably well absorbed by the demand for coinage purposes and for use in the industrial arts. This near balancing of supply and demand, with comparatively little reference to the price of silver, together with the fact that the selling of silver in the London market is in the hands of a very few brokers, has made the market unusually sensitive. A very slight increase in the demand, for example, when the buying for the Philippine Islands began, with the anticipation of large demands from other sources, was followed by an increase in the price of from 15 to 20 per cent; whereas, on the other hand, the last great fall in the price of silver—from some 25d. per ounce to  $21\frac{5}{16}$ d. last year—seems to have been brought about by a mere fear that since the Straits Settlements, the Philippine Islands, French Indo-China, Siam, and Mexico might adopt the gold standard the demand for silver might be lessened. The actual demand had not, in fact, materially lessened.

#### PRESENT METHODS OF PRODUCING AND MARKETING SILVER.

The annual production of silver for several years in the past has been about 170,000,000 ounces, and this production has not varied by 2 per cent a year, although the price of silver has fluctuated between  $30\frac{1}{4}$ d. in 1900 and  $21\frac{5}{16}$ d. in 1902. Of this 170,000,000 ounces there are sold on the London market annually about 100,000,000 ounces, this market, of course, fixing the price for the world. Some four great organizations of smelters and refiners in the United States have at their disposition from 70,000,000 to 75,000,000 ounces a year, produced in the United States and Mexico. The amount sold by Mexico, exclusive of her product sold by the above-named smelters, amounts to from 25,000,000 to 30,000,000 ounces per year. These establishments are all working more or less in harmony, and it is likely that within another year the selling of from 100,000,000 to 110,000,000 ounces per year will be practically handled by one establishment.

Inasmuch, therefore, as the silver supply under present conditions is fairly well known, it is clear that if the demand could be distributed with some regularity against the product regularly coming upon the

market, this regularity would aid materially in giving steadiness to the price. Of late years each nation has bought independently and very irregularly, so that the demand could not be foreseen. A striking example is the purchase by British India some three years ago of some 50,000,000 ounces within one year, and largely within a few months, whereas since that time, up to 1903, her purchases amounted to only a few thousand ounces. If the sellers of silver were able to count upon a more steady, though not increased, demand for government purposes, it would be possible for them to maintain a more steady price. These sellers of silver purchase their ore from the miners with the agreement that they will pay for it the actual price of the day on the London market, less a certain fixed charge in dollars and cents per ton of ore for smelting, refining, and selling. Under those circumstances it is clear that they have directly little or no interest in making the price of silver high or in depressing it. It is for their interest that the price remain as steady as possible, in order that mining activity be continuous at the most productive mines instead of sporadic at less profitable ones, and that their smelters may be kept steadily at work. Inasmuch as a very large proportion—some 70 per cent—of the entire output of silver is found as a joint product with copper, lead, and zinc, a considerable fall in the price of silver will inevitably lead, at a comparatively early date, to an increase in the price of the other metals. At present, as experience has shown, copper, lead, and zinc have already reached a price nearly as high as is possible without bringing about a decided shrinkage in the demand. In consequence, a further fall in the price of silver would be adverse to the production of lead, copper, and zinc, and adverse to the industries which are large consumers of those metals, so far as they were unable to recoup themselves from the public by advancing the price for the finished products.

These various considerations show that under present conditions of the production and sale of silver it might be possible for the price of silver, not indeed to be increased materially, but to be made more steady, provided the governments were to attempt to make such purchases of silver bullion as are actually needed with a considerable degree of regularity. The experience of the United States under the Bland and Sherman acts, as well as the usual conditions governing the purchase and sale of any commodity, show that it would be unwise for any government to attempt to maintain the price of silver by purchasing beyond its regular needs and storing or coining it. No one whose knowledge of the monetary history of the past few years is at all complete would advocate such a course. On the other hand, there is nothing artificial or unusual or contrary to sound business principles as carried out usually by business men in the governments attempting to secure a regular and steady price for the silver which they actually need for their coinage purposes by declaring beforehand

their readiness to take with a reasonable degree of regularity the amount known to be actually required. The propriety of so distributing the demand for an article as not to unduly disturb the market is recognized in many fields—especially in the market for money, whose prudent distribution is the subject constantly of preoccupations in the highest circles of finance. In the case of silver, the governments would seem to be protected, on the one hand, against any abuse of a monopoly by their ability to suspend purchases when the price rose and, on the other hand, against speculation in silver by knowing beforehand what their expenditures were likely to be.

If the ratio adopted by the different governments that are now about instituting new systems of coinage were fixed, as suggested, at about 32 to 1, that fact in itself would practically compel these governments, without any formal agreement, to suspend their purchases whenever the price of silver per ounce rose to 28d. or 29d. It would obviously be entirely contrary to sound policy for any government to increase its purchases of silver bullion beyond its legitimate and usual needs, and it is not to be expected that any gold-standard country will take steps to increase its present use of silver or to modify its existing monetary system. Even in respect to distributing purchases with regularity, it is probably not desirable that any binding contract be made by any government for itself or for its dependencies. The degree to which regularity could be assured in such purchases differs according to legal and fiscal conditions, but that the end sought by the two Commissions was a proper and desirable one was explicitly declared at every capital where the subject was considered.

It is difficult to see any evil which can arise from such a policy or any sound argument which can reasonably be made in favor of continuing the present instability of exchange, if it can be partly cured by such governmental action as shall promote stability without accumulating silver bullion which is not required.

#### SUMMARY OF RESULTS OBTAINED.

The representatives of all of the powers consulted, as has already been stated, accepted in a general way as desirable and practicable the suggestion made by the Commission of the United States. The character of these approvals warrants the statement that the work of the Commission up to this time has been entirely successful. Differences of opinion in regard to details were naturally encountered at different capitals, but they were overcome in many cases by mutual discussion and comparison of views. The form in which the ultimate opinions of the Commissioners were expressed also differed. In Great Britain and Germany there was an agreement upon certain principles, which was signed mutually by the representatives of the countries engaged in the conference. The views of the delegates of the Netherlands and of France were expressed in reports discussing

at considerable length the points submitted by the American and Mexican Commissions and expressing judgment upon them. In Russia a formal statement of views was prepared by the Russian Commissioners, which was not mutually signed, but was transmitted by the Russian Commission to the Mexican and American Commissions as a formal expression of the views of the Russian Government.

Upon the soundness of the general proposition laid down by the Mexican and American Commissions, that the adoption of a gold-exchange standard in the present silver-using countries would greatly contribute to their economic progress, there was universal agreement at every European capital where the subject was presented. There was agreement upon the principle that such a system must involve the continued large use of silver coins, in order to conform to long-established customs and existing scales of value, but that free coinage of silver should be suspended and the determination of the quantity of the coins taken under the control of the State, in order that measures might be promptly taken to give them a fixed relation with gold.

Upon the subject of the introduction of a uniform gold-standard system into China there was unanimous agreement that such a system would be desirable and advantageous both to China and to the gold-standard countries which have large commercial dealings with her. Upon the question, however, whether the gold standard should be established at the beginning or should come after the introduction of a uniform national currency upon the silver basis there was some difference of opinion. The British resolutions declared that the national currency of China should consist of silver coins made full legal tender throughout the Empire, and that "as soon as practicable steps should be taken for the establishment in China of a fixed relation between the silver unit and gold." It was explained that if it were possible as a practical matter to start with the silver coins on a gold basis that plan would be best. It was, however, not thought practicable. The Russian resolutions recited some of the difficulties of beginning upon a gold basis and declared that the American plan "would have our approval if it were so amended as to mean a national silver currency issued on Government account, which should be given as soon as practicable a fixed a parity with gold." This is practically the same as the English expression, except that it favors coinage only on Government account. The report of the Netherlands Commission strongly favored a gold parity from the beginning and declared this to be the only practicable method of obtaining the benefits of a fixed exchange, but it was pointed out that care and intelligence would be required in the administration of such a system. The German resolutions declared against free coinage of the silver coins and asserted that the Chinese Government should "take at the beginning of the reform all those steps which would allow her an influence on the rate

of foreign exchange." The French report also favored the system suggested by the commissions of Mexico and the United States.

Thus, upon the part of five powers—Germany, France, the Netherlands, Mexico, and the United States—there was agreement that the best method was to begin the issue of the new currency at a fixed gold par, while upon the part of Great Britain and Russia there was a disposition to favor beginning on a silver basis, with the view of first supplying the country with a uniform currency and then giving it within a short interval a fixed gold value.

Upon the subject of adopting the relatively uniform ratio of about 32 to 1 in the currency systems to be established in the Orient by those countries and dependencies which are considering a change in their existing systems, there was agreement in all countries except Russia. In Russia the wisdom of a ratio which would prevent the exportation of the coins by the rise in the price of silver was admitted, but it was deemed best to make the reservation that each country should determine its own ratio according to its monetary needs and economic conditions. Even in Russia, however, indorsement was given to the ratio of 32 to 1 for China as corresponding to actual economic conditions.

Upon the proposal that there would be advantages in making the purchases of silver actually required by each Government for its coinage purposes with as much regularity as possible, there was agreement at each capital where the subject was considered except in France, where objection was made to the adoption of any definite official policy on the subject. Doubt was expressed in some cases as to whether actual requirements could always be determined with regularity; but the principle was declared to be sound that regularity of purchases would be beneficial alike to the silver market and the stability of international exchange.

Still another subject was dealt with by the French and German commissions without solicitation by the Commission of the United States. This was the internal tax levied upon manufactured articles of silver. The French tax upon such articles is high, amounting to about 30 per cent of the value of the silver at its present price, and imposes serious restrictions upon the use of such articles in France. It was suggested by the French delegates themselves, therefore, that the abolition or reduction of this tax would be advantageous and that they would recommend it to their Government. A similar declaration was made by the German commission. The text of the resolutions and reports adopted in each country will be found in an appendix to this report.

The German resolutions recited the fundamental principle, embodied in the original notes of China and Mexico addressed to the United States, that it was not sought to effect a change in the monetary system of the gold-standard countries, and that the establishment of

international bimetallism was "neither intended nor considered practicable." This declaration, it is needless to say, had the cordial approval of the Mexican and American commissions.

#### NECESSITY OF CONTINUING THE WORK.

The securing of the formal approval of the leading European powers to the prompt establishment of a uniform monetary system for China placed on a gold basis, either at once or at the earliest practicable moment, marks the first necessary step, though only one step, toward the accomplishment of the work of the Commission, as indicated in the notes of Mexico and China in presenting the subject to the Government of the United States.

A project of law is already in course of preparation in Mexico which contemplates the adoption of the gold-exchange standard, and which will probably be enacted at the present session of the Mexican Congress.

Owing to the conditions in China, which have already been discussed, the adoption of a sound monetary system in that country is a much more difficult matter. At the suggestion of representatives of the Chinese Government one or more members of the American Commission will proceed to China to present formally to the Imperial Government the results of the work accomplished in Europe by the Mexican and American commissions. The American commissioner will be able to report that the United States is already in position to state that no obstacle will be placed in China's way by any of the European powers, and that in many ways she may count on their hearty cooperation. The matter will also be presented to the Japanese Government as it has been presented in Europe, and there is reason to believe that its advice and cooperation, which is so influential in China, will be secured. Thereafter the representatives of the Commission will cooperate with the Chinese Government in formulating the details of a suitable gold-exchange system and in presenting the matter to native and foreign business men and officials and in urging it wherever such work can be of assistance.

The notes of the Governments of Mexico and China contemplated also the extension of the fixed exchange system in some practicable form to the other silver-using countries of the world. As has already been intimated, Peru has taken action of her own volition, and the Straits Settlements with the Federated Malay States and French Indo-China have taken first steps toward securing this fixed parity of exchange. When China succeeds in carrying out her plans, the English colony of Hongkong and the German colony of Kyao-chau will doubtless adopt either the system adopted by China or one closely related to it. With the new system successfully inaugurated in the near future in Mexico and in preparation by China, the path will be opened for the presentation of the project by the American Commis-

sion to the friendly republics of Latin America and for widening the opportunities there for the extension of American trade.

The work has been begun successfully, even beyond the anticipations formed by the Commission at the outset. The study of the subject has brought into clear light the great difficulties of the task, but it has made still more evident the great benefits that are to come both to the silver countries and to Europe and the United States from the success of the movement when it is finally assured.

The friendly petition of China to the United States has been a natural result of the cordial relations between the two powers growing out of the enlightened attitude of our Government, and has afforded the means of demonstrating anew the desire of the United States to promote the true economic interests of China, in the belief that those interests are identical with those of America and of all other powers seeking legitimate commercial opportunities in the Orient.

HUGH H. HANNA.

CHARLES A. CONANT.

JEREMIAH W. JENKS.

OCTOBER 1, 1903.

## APPENDIXES.

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### APPENDIX A.

#### OFFICIAL PAPERS OF THE UNITED STATES COMMISSION.

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##### I. — NOTES OF THE GOVERNMENTS OF CHINA AND MEXICO TO THE UNITED STATES.

[Senate Doc. No. 119, Fifty-seventh Congress, second session.]

##### FIXED RELATIONSHIP BETWEEN THE MONEYS OF GOLD-STANDARD COUNTRIES AND SILVER-USING COUNTRIES.

Message from the President of the United States, transmitting a report from the Secretary of State, with accompanying notes from the Mexican ambassador and the Chinese chargé d'affaires ad interim, which seek the cooperation of the Government of the United States in such measures as will tend to restore and maintain a fixed relationship between the moneys of the gold-standard countries and the silver-using countries, etc.

[January 29, 1903.—Read; referred to the Committee on Finance and ordered to be printed.]

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##### *To the Senate and House of Representatives:*

I transmit herewith a report from the Secretary of State, with accompanying notes from the Mexican ambassador and the Chinese chargé d'affaires ad interim, which seek the cooperation of the Government of the United States in such measures as will tend to restore and maintain a fixed relationship between the moneys of the gold-standard countries and the silver-using countries.

I recommend that the Executive be given sufficient powers to lend the support of the United States, in such manner and to such degree as he may deem expedient, to the purposes of the two Governments.

THEODORE ROOSEVELT.

WHITE HOUSE, *January 29, 1903.*

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##### The PRESIDENT:

I have the honor to submit herewith a translation of a note from the ambassador of the Republic of Mexico and a copy of a note from the chargé d'affaires of the Imperial Chinese Government. Both notes ask the cooperation of the Government of the United States in such

measures as will tend to restore and maintain a fixed relationship between the moneys of the gold-standard countries and the silver-using countries. It is not asked that the United States modify its monetary system, and it is distinctly disavowed that any movement is contemplated for the restoration of international bimetallism. The opinion is expressed, however, by representatives of both Governments that consultation between the United States and European powers having dependencies in the Orient and the independent countries where silver money is in general use may result in the adoption of a monetary system which will prevent the great fluctuations in exchange which now occur in trade with the silver-using countries. If such a result can be achieved—and it is pointed out that at least a partial solution has been proposed in the United States in a bill now pending in the Senate in regard to the Philippine Islands—great benefits will follow to the trade of the world by making easier the access of the products of the manufacturing nations to the markets of China and the other silver-using countries.

The consideration of this subject may have an important bearing also on the payment of the indemnity due by China to certain European powers and to the United States by enabling the Chinese Empire to put her monetary system upon a basis which will make it possible for her to meet these payments in a manner satisfactory to all the powers. This result, if it could be accomplished, would be of the first importance not only to the United States and to the other powers having a share in the indemnity payments, but to China herself and her future development.

I respectfully submit for your consideration that these communications be transmitted to Congress with the recommendation that the Executive be given sufficient powers to lend the support of the United States in such manner and to such degree as you may deem expedient to the purposes of the two Governments whose notes are herewith submitted.

Respectfully submitted.

JOHN HAY.

DEPARTMENT OF STATE,  
*Washington, January 28, 1903.*

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*List of papers.*

From Mexican ambassador, January 15, 1903, with inclosed memorandum.  
From Chinese chargé, January 19, 1903.  
From Chinese chargé, January 22, 1903, with inclosed memorandum.

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*Mr. Azpíroz to Mr. Hay.*

[Translation.]

No. 323.]

EMBASSY OF MEXICO, WASHINGTON, D. C.,  
*Washington, January 15, 1903.*

EXCELLENCY: Referring to the interview which I had with you on the 20th day of December last, and to the suggestion of the secretary of foreign relations of my Government contained in the telegram of which I then had the honor to deliver to you a copy, to the effect that

my Government would present to that of your excellency a plan for the utilization of the monetary systems of the nations which at the present time employ silver as current money, I have received from the secretary of foreign relations the necessary instructions to set forth the ideas of my Government in regard to the adoption of a plan by the United States and others of the governments which are most interested in this question. These ideas will be found expressed in the memorandum which accompanies this note.

The Government of Mexico would be gratified to obtain the cooperation of the United States in this matter in the manner which it may deem most appropriate, and hopes with the deepest concern that its suggestions may merit especial consideration on the part of your excellency's Government.

I take pleasure, etc.,

M. DE AZPÍROZ.

[Inclosure.]

#### MEMORANDUM.

The serious dangers which are threatened by the recent fluctuations in the value of silver bullion to the commerce, both of gold and silver standard countries, have determined the Government of the Republic of Mexico to ask the cooperation of the United States in seeking a remedy for these conditions. Safe and profitable trade between any two countries is dependent to a considerable degree upon relative stability in the value of their currencies. This stability is destroyed in the trade between a gold-standard country, like the United States, and a silver country, like Mexico, when the variations in the gold value of silver, as was the case during the year 1902, reached nearly 10 cents an ounce in gold in a single year, or nearly 20 per cent, upon the price of silver bullion.

The problem of securing relative stability of exchange between the gold and silver countries is one whose importance is not limited to silver countries, but comes home with force to all those gold-standard countries which are seeking markets for their products in silver countries and are seeking the extension of their trade in the Orient. The importance of this trade is indicated in some measure by the following tables of the imports into certain silver-using countries for the latest year for which data is obtainable, based in some cases upon official figures and in others upon those presented in the Statesman's Yearbook for the year 1902, reduced to round figures in American gold coins:

#### *Imports of certain silver-using countries.*

China .....	\$196,934,342	Korea .....	5,500,000
Mexico .....	65,083,451	Bolivia .....	3,300,000
Philippine Islands .....	32,141,842	Colombia .....	11,083,028
The Straits Settlements ..	150,000,000	Guatemala .....	1,521,900
Federated Malay States ..	18,000,000	Honduras .....	1,074,050
Indo-China .....	35,750,000	Nicaragua .....	3,500,000
Cochin China .....	24,000,000	Paraguay .....	1,838,710
Tonking .....	12,300,000		
Siam .....	12,600,000	Total .....	574,627,323

The large volume of imports into the silver countries, exceeding the entire annual import trade of the United States as recently as 1879, comes almost exclusively from the gold-standard countries which are

engaged in the manufacture of finished goods for the world's markets and are profoundly interested in the extension of those markets. The table given does not include British India and several silver countries in South America, who might become parties to an arrangement for giving stability to the relative value of the money of gold and silver countries.

The volume of exports from the gold-standard to the silver-standard countries is threatened not only by the uncertainty introduced into all transactions, but by the barrier of constantly rising silver prices for foreign goods in the silver countries. Thus the Republic of Mexico, with the strongest desire to promote a large reciprocal trade with the United States, has not been able to prevent the automatic influence of the rise in silver prices of American goods from acting as a sort of progressive protection against their introduction into Mexico. Recent action by the Government of Mexico, compelled by the necessity of preserving a sufficient revenue for meeting its gold obligations abroad, has placed the import tariff itself upon a sliding scale, which will increase the burden of the silver charges upon merchandise imported from gold countries.

In another respect than the exports to silver countries the trade of the gold countries is threatened by the fluctuations in the value of silver. Silver is a by-product in the production of gold, copper, and lead, articles which constitute a large proportion of the annual mineral production of Mexico and the United States and form in both countries important articles of export. From the United States, according to official returns, the exports of copper ingots, bars, etc., for the fiscal year 1902 reached 288,720,655 pounds, of a reported value of \$39,190,619, and the net exports of silver were about \$21,500,000. These two items, exceeding \$60,000,000, constitute nearly 5 per cent of the total exports of the United States. It is obvious that if silver, as one of the two products of a given operation, falls greatly in value, it must depress the net price received for both products and thereby diminish the profits and the output of the gold, copper, and lead industries of the United States and the value of such products when exported. From Mexico nearly half of the annual exports are of silver, which makes it still more important to her, from a commercial as well as a monetary point of view, that steps should be taken to check the recent fluctuations in the relative value of the money metals.

The large investments of the money of citizens of the United States in railways, mines, coffee plantations, smelting works, and many other enterprises in Mexico, exceeding in amount \$500,000,000 gold, according to the last statement of your consul-general, Mr. Andrew Barlow, make the stability of relationship between the moneys of the two countries of direct importance to the United States. The earnings of these enterprises, remitted to American investors, have suffered a serious fall in gold value with every fall in the value of Mexican money, and the principal of the investment has suffered in the same manner, when considered from the standpoint of converting it back into gold. It would act at once as a safeguard to existing investments and a stimulus toward their increase, with obvious benefits to both countries, if the money of Mexico could be brought into a stable relation to the money of the United States.

It is not advisable, in the opinion of this Government, that the Republic of Mexico should, under the present circumstances, adopt a pure-gold currency, and it desires that some other system might be devised, with the concurrence of other powers, which will give stability

of relationship to the money of the gold and silver using countries. The adoption by Mexico of a gold currency would cause the continued depreciation of an article which constitutes nearly one-half of her exports and would impose a seriously increased demand upon the gold stock of the world. The scale of wages and prices and the habits of the Mexican people are not well adapted to the introduction of gold coin as the principal medium of circulation. The same may be said of the conditions and the people of the Philippine Islands, which are under the authority of the United States; of the Straits Settlements, and the federated Malay States, which are under the authority of Great Britain; of Indo-China, Cochin China, and Tonking, which are under the authority or protection of France; of Formosa, which is under the authority of Japan, and of Siam, Korea and China. Even if it were practicable for Mexico to adopt a gold currency for herself, her action would represent but an incomplete and unsatisfactory solution of the problem of the exchanges, because it would not contribute in any appreciable degree toward the solution of the same problem in the countries of the Orient.

It will be noted that the largest volume of imports in the table given above is credited to the Chinese Empire. This large volume of trade, in order to obtain which great military and economic sacrifices have been made by the United States and European powers, is threatened in the present state of the Chinese fiscal and currency systems with partial paralysis, if not with extinction. The heavy indemnity imposed by certain of the powers upon the Chinese Government has led to large offerings of silver on the Chinese market, and has diminished the power of that country to purchase foreign goods to a point which threatens to materially reduce the existing export trade to China from the United States, Great Britain, France, Germany, and other countries.

It is with a view to finding a remedy for these conditions, which will preserve the export and carrying trade of the leading manufacturing nations to the silver countries, that the cooperation of the United States is asked in representations to other leading powers in favor of international concert of action on this subject. The Government of Mexico does not seek the restoration of the free coinage of silver by either the gold or silver using nations, and does not ask the United States to modify her present monetary standard. It is recognized by this Government that bimetallism in the sense of the coinage of both metals is a policy which has been definitely discarded by leading powers of Europe and by the United States, and that it would be futile to ask its restoration.

It is therefore not the expectation nor the wish of this Government that the gold-standard countries should take any action tending to impair their monetary standard or to make material changes in their monetary systems. It is desired that the governments of gold countries having dependencies where silver is used and the governments of silver countries shall cooperate in formulating some plan for establishing a definite relationship between their gold and silver moneys, and shall take proper measures to maintain such relationship. One such plan has already been proposed in both Houses of the Congress of the United States with reference to the Philippine Islands. It is this and other plans designed to accomplish the same end which the Government of Mexico would be glad to have considered by the United States and other governments, with the view to the adoption of the best attainable monetary arrangement by those countries which are not prepared under

existing conditions to adopt a currency system involving the general use of gold coins.

The cooperation of the United States with the Republic of Mexico in presenting this subject to other governments would, in the opinion of the latter, aid greatly in securing a prompt and satisfactory solution of an economic problem which threatens the ruin of the silver-using countries on the one hand, in the vain effort to meet increasing gold obligations abroad, and which threatens also the commercial prosperity of the gold-using countries by destroying the purchasing power of their customers. It seems that it would contribute materially to the permanent and satisfactory settlement of this problem if Great Britain and France, with their important colonial possessions in Asia, and if Germany, Russia, and other countries having large commercial and territorial interests there, would unite with the United States and Mexico in the adoption of a common standard for a new coinage system in the silver countries; in recommendations for the readjustment of the fiscal and monetary relations of China with the other powers, which would permit that country to continue to be a user of silver and a purchaser of the products of the manufacturing nations; and in such provision for their own subsidiary currencies as would tend to promote stability of relationship between their gold and silver money.

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*Mr. Shen to Mr. Hay.*

No. 276.]

CHINESE LEGATION,  
*Washington, January 19, 1903.*

SIR: I have the honor to state that on the 26th December last I received a telegram from the Imperial Government giving me instructions relative to a proposed international discussion of the silver question.

The steady depreciation and constant fluctuation in the value of silver, in recent years in particular, not only prove detrimental to the interests of China, which is one of the silver-standard nations, but, it is believed, seriously affect in no small degree the export trade of the United States and European nations with silver-using countries. With a view to further the interests of all concerned, it is now proposed that the Chinese Government, acting in concert with the Government of the Mexican Republic, request the cooperation of the Government of the United States in representations to other leading powers in favor of international concert of action relative to the silver question.

It will be my pleasurable duty in the immediate future to submit to you for the consideration of your Government a memorandum embodying the views of my Government bearing upon this subject in greater detail.

Accept, sir, etc.,

SHEN TUNG,  
*First Secretary and Chargé d'Affaires ad Interim.*

*Mr. Shen to Mr. Hay.*

No. 277.]

CHINESE LEGATION,  
*Washington, January 22, 1903.*

SIR: Referring to my note No. 276, of the 19th instant, in which I informed you that I had received instructions from the Imperial Government relative to a proposed plan looking toward an international concert of action bearing upon the monetary question, I have the honor to submit to you the accompanying memorandum containing the views of my Government relating to the above-mentioned subject.

It is the confident hope of the Imperial Government that the subject-matter of its memorandum may receive the careful consideration of the Government of the United States, and that such steps may be taken as it may deem proper toward bringing about the desired end, to the mutual benefit of all concerned.

Accept, sir, etc.,

SHEN TUNG.

[Inclosure.]

#### MEMORANDUM.

The serious results which are threatened by the recent fluctuations in the value of silver bullion to the commerce both of gold and silver standard countries have induced the Chinese Imperial Government, acting in concert with the Mexican Government, to ask the cooperation of the United States in seeking a remedy for these conditions for the mutual benefit of all concerned. Safe and profitable trade between any two countries is dependent to a considerable degree upon relative stability in the value of their currencies. This stability is destroyed in the trade between a gold-standard country, like the United States, and a silver country, like China, when the variations in the gold value of silver, as was the case during the year 1902, reached nearly 10 cents an ounce in gold in a single year, or nearly 20 per cent upon the price of silver bullion.

The problem of securing relative stability of exchange between the gold and silver countries is one whose importance is not limited to silver countries, but comes home with force to all those gold-standard countries which are seeking markets for their products in silver countries and are seeking the extension of their trade in the Orient. The importance of this trade is indicated in some measure by the following table of the imports into certain silver-using countries for the latest year for which data is obtainable, based in some cases upon official figures and in others upon those presented in the Statesman's Year Book for the year 1902, reduced to round figures in American gold coin:

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Indo-China .....	35,750,000	Nicaragua .....	3,500,000
Cochin China .....	24,000,000	Paraguay .....	1,838,710
Tonkin .....	12,300,000		
Siam .....	12,600,000	Total .....	574,627,323

This large volume of imports into the silver countries, exceeding the entire annual import trade of the United States as recently as 1879, comes almost exclusively from the gold-standard countries which are engaged in the manufacture of finished goods of the world's markets and are profoundly interested in the extension of those markets. The table given does not include British India and several silver countries in South America which might become parties to an engagement for giving stability to the relative value of the money of gold and silver countries.

It will be noted that the largest amount of imports in the table given above is credited to the Chinese Empire. This large volume of trade is threatened in the present state of the Chinese fiscal and currency systems with a decline the limit of which no one could foresee. The heavy indemnity imposed by certain of the powers upon the Chinese Government has led to large offerings of silver on the Chinese market and has diminished the power of that country to purchase foreign goods to a point which threatens to materially reduce the existing export trade to China from the United States, Great Britain, France, Germany, and other countries.

The foreign trade of China, while standing at the head of the above table in the order of magnitude, is small at present in proportion to the population and resources of the Chinese Empire. The exports from the United States to China have multiplied many fold within twelve years, and now exceed \$24,000,000. The present volume of imports of merchandise into China, however, amounts to only about 50 cents per capita in gold, and affords but a slight measure of what the trade of China might become if expanded in the future as rapidly as even that of Japan, which has advanced in ten years from about \$1.25 to nearly \$3 per capita. An import trade of \$3 per capita for the Empire of China, with its nearly four hundred million people, would represent the enormous sum of \$1,200,000,000, or one-third more than the largest amount ever attained by the import trade of the United States. The encouragement of a commerce so important as this seems to the Chinese Imperial Government to be worthy of the most serious consideration of the Western powers. It would afford an outlet for the produce of the labor of many thousands of workers of Europe and America, and employment for many millions of the capital of those nations, and would dot the Pacific and Indian oceans with the flags of a carrying trade as large as that now required in the entire commerce between Europe and the United States.

While a readjustment of the currency of China upon a stable relationship with that of the gold-standard countries would not in itself, perhaps, accomplish so tremendous a revolution as would be involved in the creation of a trade of more than a thousand millions, yet it would be one of several steps in that direction, which would contribute greatly to accelerate an event of such paramount importance to the capitalists and the producing masses of the Old and New Worlds. The necessity is becoming more and more keenly felt by American and European manufacturers for the opening of new and the extension of already existing markets in every direction for the absorption of their goods, in order that means may be found for relieving overproduction and affording profitable returns to the investment of capital. China, with her immense population and consequently large potential capacity for absorbing foreign products, offers a most important field for American and European manufactures, the ready absorption of which would

tend to relieve overproduction and contribute materially to the prosperity of the manufacturing nations.

If results such as these are within the range of the influence of a reorganization of the monetary system of China, in harmony with the system of other powers where silver is the principal money in use, it is evident that the Chinese Imperial Government acts from no narrow and selfish motive in asking the United States and the Republic of Mexico to join her in seeking an international arrangement for securing greater fixity of relationship between the moneys of the gold and silver countries.

Questions of finance and economics should be considered in all their bearings, with due attention to their far-reaching effects, and not merely upon results which bring immediate benefit. Important as are the indemnity payments to the several powers, and ready as China is to meet them to the best of her ability, they represent but a trifling proportion of the benefits which may be derived by the western powers from a policy which would give to China a permanent uniform monetary system and make her a wide market for the products of American and European factories and workshops.

It is with a view to finding a remedy for the monetary causes which threaten to retard this development and to preserve the export and carrying trade of the leading manufacturing nations to the silver countries, so that trade may not lose its healthy activity and confidence may be restored to investors and manufacturers, that the cooperation of the United States is asked in representations to other leading powers in favor of international concert of action on this subject. The Government of China does not seek the restoration of the free coinage of silver by either the gold or silver using nations. It is recognized by this Government that bimetallism in the sense of the free coinage of both metals is a policy which has been definitely discarded by leading powers of Europe and by the United States and that it would be futile to propose its restoration.

It is, therefore, not the expectation nor the wish of this Government that the gold-standard countries should take any action tending to impair their monetary standard or to make material changes in their monetary systems. It is desired that the governments of gold countries having dependencies where silver is used and the governments of silver countries shall cooperate in formulating some plan for establishing a definite relationship between their gold and silver moneys, and shall take proper measures to maintain such relationship. One such plan, it is reported, has already been proposed in both Houses of the Congress of the United States with reference to the Philippine Islands. It is this and other plans designed to accomplish the same end which the Government of China would be glad to have considered by the United States and other governments, with the view to the adoption of the best attainable monetary arrangement by those countries which are not prepared under existing conditions to adopt a currency system involving the general use of gold coins.

The cooperation of the United States with the Chinese Imperial Government and with the Republic of Mexico in presenting this subject to other governments would, in the opinion of this Government, aid greatly in securing a prompt and satisfactory solution of an economic problem which threatens the ruin of the silver-using countries on the one hand, in the main effort to meet increasing gold obligations abroad, and which threatens also the commercial prosperity of the

gold-using countries by destroying the purchasing power of their customers. It would, we believe, contribute materially to the permanent satisfactory settlement of this problem if Great Britain and France, with their important colonial possessions in Asia, and if Germany and Russia and other countries having large commercial and territorial interests there, would unite with the United States and China in the adoption of a common standard for a new coinage system in the silver countries; in recommendations for the readjustment of the fiscal and monetary relations of China with the other powers which would permit that country to continue to be a user of silver and a purchaser of the products of the manufacturing nations, and in such provision for their own subsidiary currencies as would tend to promote stability of relationship between their gold and silver money. The Chinese Imperial Government will welcome the cooperation of the United States in this matter in any form which may be acceptable to that power and earnestly prays that the subject may receive the prompt and serious consideration which, in the opinion of this Government, it merits.

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## II.—INSTRUCTIONS OF THE SECRETARY OF STATE TO THE COMMISSION OF THE UNITED STATES, APRIL 21, 1903.

DEPARTMENT OF STATE,  
*Washington, April 21, 1903.*

GENTLEMEN: In carrying out the wishes of Congress, expressed in the act of March 3, 1903, which provided, in accordance with the recommendation of the President in concurrence with the notes of the Mexican and Chinese Governments, "that the Executive be given sufficient powers to lend the support of the United States, in such manner and to such degree as he may deem expedient," to the purposes set forth by these countries, you are instructed as follows:

The ever-fluctuating rates of exchange between silver-standard countries and gold-standard countries is universally recognized to be a heavy tax upon international commerce. The marked benefits to all countries that would follow the establishment of stability in these rates is universally acknowledged.

The Mexican Government has asked the cooperation of the United States in an effort to ameliorate as far as possible these conditions. Your appointment is made in recognition of the desirability of accomplishing the end referred to and to give evidence that the United States Government is anxious to cooperate with all silver-standard countries and with European powers to that end. In appointing this Commission, however, the United States does not commit itself to any particular plan or method. Neither the executive nor the legislative department has sufficiently considered the many complicated questions involved to determine either definite recommendations or the acceptance of any plan.

You are therefore directed to confer with the executive departments of Mexico and China, and also with England, Germany, France, Russia, and such other European countries as time and opportunity will permit, for the purpose of formulating, if possible, some wise and feasible policy.

You are not authorized to suggest any specific changes in the currency systems of the gold-standard countries, nor to suggest that any

change whatever will be made in the present monetary standard of the United States.

China, the greatest of the silver-standard countries, is at the present time suffering especially because of the depreciation in the price of silver bullion. A stable currency would be greatly to her advantage and greatly to the advantage of the powers to whom this indemnity is due. You are to assure the Imperial Government that the United States will give its hearty moral support to any reasonable plan which may be agreed upon, to the extent of using its good offices in presenting such plans to the other powers interested and to bankers and financiers whose aid may be desired in carrying them out. You are not, however, authorized to encourage in any way a belief that any financial support of any nature whatever will be given by the Government of the United States in aid of such plan.

After thus conferring with the countries indicated, you will make report, embodying such information as you may be able to gather, such assurances of cooperation as may be made by other countries, and such policies as may be recommended by the several Governments, together with your own recommendations as to the course the United States ought to pursue.

Very respectfully,

JOHN HAY.

HUGH H. HANNA, Esq.

CHARLES A. CONANT, Esq.

JEREMIAH W. JENKS, Esq.

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### III.—PAPERS PRESENTED BY THE UNITED STATES COMMISSION TO THE BRITISH COMMISSION.

[As printed by the British Government.]

#### No. 1.

#### PRELIMINARY STATEMENT.

We trust that in our visit to you we shall be welcome, since we are confident of the breadth of the spirit of our Government in the acceptance of the service sought of it. We are conscious of the rectitude of our purpose and the world-wide interest of the subject of our mission, and, consequently, we wish to present it to you in all candor.

The general stress, and particularly the stress suffered by the importers in countries whose currency systems are not based upon gold, and their consequent disinclination to risk profit and credit by reason of their inability to reckon cost, caused our Government to respond promptly and favorably to the notes of Mexico and China (copies of which we submit herewith) requesting our cooperation in an effort to bring about such measures as will tend to restore and maintain a fixed relationship between the moneys of the gold-standard countries and the silver-using countries.

It is hoped that consultation between the United States and European powers influential in the Orient and other countries where silver is in general use may result in measures which will prevent the serious fluctuations which now occur in the cost of exchange in silver-using countries. By authority of Congress, the President, through

the State Department, has appointed the Commission for whom I have the honor to speak, to present the subject to the interested European powers and other countries mentioned. The importance of the subject, the possibilities of development incident to it, the large interest the trade of Great Britain shares in it, and our special desire to work in harmony with you in the preliminary work and fundamental principles involved in the undertaking, have led us thus early to lay the subject in simple and free manner before you, soliciting your sympathetic support in what seems to be a measure without preference to any country and of equal interest to all.

Our two countries, according to the latest available statistics, export nearly half of the foreign goods imported into China. The exports of Great Britain to China and Hongkong in 1901 reached a value in excess of £9,300,000, while the exports of the United States to China and Hongkong for the fiscal year ending June 30, 1902, were in excess of £6,400,000. These amounts make up nearly half of the total import trade of China, which amounted in 1901 to 268,302,918 haikwan taels.

The United States Government wishes to state clearly at the outset, as Mexico and China stated in their notes to the United States Government, that it is not its intention to attempt to change the monetary systems of any of the gold-standard countries; it is not its primary object to affect the price of silver bullion, although the United States, as one of the greatest producers of silver, can not be entirely indifferent to any matter which might seriously affect its value; nor is it the intention of the Government to make any effort to revive the question of an international bimetallic agreement. It recognizes the fact that whether such an agreement were desirable or not some years ago, now at any rate such a movement is not within the scope of practical politics. It also believes that the essential end of fixing a stable rate of exchange between gold and silver moneys in the silver-using countries can be attained by simpler means and without drawing to any harmful extent upon the gold funds of Europe or America. If the mints are closed to free coinage, it is not necessary to rely entirely for this purpose upon the relation between the values of gold and silver bullion.

Great Britain, in her conservative policy in India, pointed out one way in which a government may give to a silver-using country a fixed par of exchange, while still leaving to the people the silver coins to which they have been long accustomed. The United States, following in the main her example, with minor differences due to the different conditions, has already passed a general law regarding a new monetary system for the Philippines. The pressing needs of these islands could not well permit delay for another year, although practically all means and methods of securing parity of exchange, of determining the extent and rapidity of the coinage, and of the maintenance of the system have been left to the Philippine government to determine, as occasion shall arise, in the light of the experience of other countries and on such advice as it shall seem wise to secure.

The Republic of Mexico, whose progress in commerce and wealth has been one of the most remarkable events of recent economic history, is about considering the enactment of a similar measure for giving stability to the monetary relations between herself and the United States, Great Britain, and the other gold-standard countries with whom she conducts her trade.

The United States Government has also been gratified to learn that the Government of King Edward is contemplating a similar step in the Straits Settlements, which may likewise affect the Federated

Malay States, while it has noted the many interesting discussions of the same subject in the colony of Hongkong, and in Shanghai and Tientsin, where British commercial interests are dominant. It is hoped that this full discussion of the subject already by British colonies and British business men may have placed the British Government in readiness to consider and to suggest measures which may, with certainty and without too long delay, lead to the accomplishment of the desired result of securing a stable currency throughout the Far East.

Likewise, since the interests of all the great powers are so closely united on the question of the payment of the Chinese indemnity (while the trade of Great Britain is so closely connected with the progress of China), it has been hoped that they all, and especially Great Britain, might be willing to give most careful attention to establishing a general currency for China, as stipulated in the treaty between that country and Great Britain, in the hope that this might prove a potent means of rendering China the more ready and able to meet her obligations.

The Government of the United States does not seek to secure absolute uniformity in the monetary systems of the countries of the East, nor to secure binding treaty agreements governing those systems. It simply desires by informal consultation and comparison of views to promote throughout the world, so far as may be found practicable, such a harmony of monetary systems as will tend on the one hand to promote the prosperity of the undeveloped countries by giving them the benefits of the same stability of monetary standard and the same freedom of commerce which have enriched Great Britain, America, and other nations under similar conditions; and on the other hand, to promote the industrial prosperity of these richer nations by the wider markets afforded for their products and the new openings created for the profitable investment of their savings. In these general objects the Government of the United States felt that it could count with a certain degree of confidence upon the enlightened sympathy of a nation which has always been foremost in blazing new paths for commerce and lightening the fetters upon its free movement.

We therefore take the liberty of suggesting that it would be very gratifying to us and useful in helping us to carry out the instructions of our Government if you could see your way clear to bring us into communication with such of your officials as are closely related to the subject, or with other persons whom you may prefer who are familiar with the monetary and commercial situation in the Far East, especially in India, the Straits Settlements, and China, and who might be authorized to lay before the Government any result of our informal conference with reference to any future action which the Government may think it wise to take.

MAY 28, 1903.

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## No. 2.

[Handed in June 4, 1903.]

### GENERAL SUGGESTIONS REGARDING THE ORDER OF PROCEDURE.

1. As was intimated in the memorandum <sup>a</sup> submitted by the American Commissioners to the Government of Great Britain, the Govern-

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<sup>a</sup>No. 1.

ment of the United States in this work wishes to use its influence to establish as widely as possible a fixed parity of exchange between gold and silver moneys, for these reasons:

(a) To promote an international movement for the betterment of trade relations throughout the world, without preference to any country and of equal interest to all.

(b) To aid two friendly nations who have asked assistance, and with whom the political and business relations of the United States are valuable and are improving.

(c) To take steps which bid fair to assist materially the trade of the United States.

2. The Commission came first to England—

(a) Because Great Britain has colonies on a silver basis which have been lately contemplating a similar policy, so that the British Government would certainly be interested.

(b) Because Great Britain's trading interests are large, and because it is her established policy to encourage and develop international trade.

(c) Because British experience along these lines, especially in India, has been very valuable, and because British cooperation is very much needed if the plan is to succeed.

3. While the conditions in China present the most important problem, and while the establishment of a fixed rate of exchange between silver and gold currencies is the chief purpose of the Commission, the question of the influence of such a movement on the price of silver has been frequently raised, and it is probably better to consider that question first—

(a) Because the discussion of that question will probably aid in determining opinions on other points.

(b) Because such discussion will make clear the motives of the United States and Mexico regarding the production of silver.

(c) Because it is very important that these motives and the probable influence of the change be made clear at the beginning of our work.

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### No. 3.

[Handed in June 3, 1903.]

#### CONSIDERATIONS REGARDING THE PRICE OF SILVER.

1. *Need for stability.*—The chief interest of the Commission on International Exchange is to secure as far as possible stability of exchange rates on a gold basis between the gold and silver using countries. A gold exchange system in silver-using countries can be brought about and maintained much more easily provided prices of silver bullion are reasonably steady. Whether silver bullion is high or low as compared with gold is of less consequence than that its price remain steady.

2. *Present conditions.*—(a) The silver market seems to be affected unduly by sentiment. For example, the last great fall in the price of silver seems to have been brought about largely by the fear that since the Straits Settlements, the Philippine Islands, French Indo-China, Siam, and Mexico might all adopt a gold standard the demand for silver would be very greatly lessened. The actual demand had not lessened materially, and the great fall seems to have been brought about simply by fear of future shrinkage of demand.

(b) Under present circumstances, with each nation buying independently and very irregularly, the demand can not be foreseen. Some three years ago India bought, within a short time, some 60,000,000 of ounces. Since that time its purchases have been practically nothing. If the demand could be made somewhat regular, it would aid in giving stability to price.

(c) The silver supply is fairly well known.

(1) The total amount for several years in the past has averaged about 170,000,000 ounces, and that with the price of silver varying between  $30\frac{1}{4}$ d. per ounce in 1900 and  $21\frac{5}{16}$ d. per ounce in 1902.

(2) The selling of silver is to a considerable extent in the hands of a few establishments. The London market apparently fixes the price for the world. There are sold regularly on the London market annually about 100,000,000 ounces. Great organizations of smelters and refiners in the United States have at their disposition from 70,000,000 to 75,000,000 ounces a year. There can be sold by Mexico from 25,000,000 to 30,000,000 ounces a year.

3. *Possible effects.*—(a) In consequence, if the demand for silver were reasonably regular, it would be possible for these few sellers to maintain a steady price. It would be for their interest to keep the price steady even though the price were not high.

(b) It would be impossible for them to put the price very high, provided the governments, who are the chief purchasers, though indicating their probable annual needs, were to stop their buying when the price reached a certain fixed maximum, say 28d.

(c) If the price of silver were to approach closely the coining value, the danger of counterfeiting would be greatly lessened.

4. *Suggestions.*—While the matter is entirely a commercial proposition with which the United States Government as such has nothing to do, it is evident that if each nation were to indicate its probable needs for a period of, say, from three to five years in advance and were to express its readiness to supply these needs steadily by monthly purchases, other things equal, that policy would tend greatly to secure the needed stability in price.

With this indication of probable purchases might well be coupled the understanding that if at any time the price went above 28d. per ounce such purchases would cease.

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#### No. 4.

[Handed in June 8, 1903.]

#### SUGGESTIONS FOR A MONETARY SYSTEM FOR CHINA.

1. The Chinese Imperial Government promptly to take effective steps satisfactory to a majority of the indemnity treaty powers to establish a general monetary system consisting chiefly of silver coins with a fixed gold value.

2. In the establishment and management of this system, China to be asked to invite and employ acceptable foreign assistance.

3. In pursuance of this plan, the Chinese Government to appoint a foreign controller of the currency, who shall have general charge of the system for China; he to have acceptable associates in charge of the mint or of such work as he may prescribe.

4. The controller to make monthly reports in detail of the condition of the currency, including amounts in circulation, loans, drafts on foreign credits, etc.; his accounts to be open at reasonable times to inspection by accredited representatives of the powers interested in the indemnity, such representatives, as also the associate controllers, to have the right of suggestion and recommendation.

5. The Chinese Government to adopt a standard unit of value. The coin to consist of grains of gold, and to be worth presumably approximately the gold value of a tael or somewhat more than a Mexican dollar. Provision to be made for the free coinage of suitable pieces multiples of this unit, 5, 10, and 20, on demand, for a reasonable coinage charge. Eventually some to be coined on Government account.

6. China to coin as rapidly as possible 200,000,000 silver coins with an appropriate device about the size of a Mexican dollar for circulation in the country. These to be maintained at par with the standard gold coin at a ratio of about 32 to 1. More to be coined thereafter according to needs, as indicated by provisions following. Subsidiary and minor coins of suitable weight and value to be provided.

7. Both the gold and silver coins to be receivable at par in payment of all obligations due to the Chinese Imperial Government in any of the provinces. When such obligations have been made in silver the new coins to be tendered instead at their coin value.

8. The Government at its discretion, in conjunction with the viceroy, from time to time to declare by proclamation in the various provinces the new coins legal tender for debts incurred after a date fixed in the proclamation. Previous debts to be paid as contracted.

9. For the expenses of the inauguration of the system and for the maintenance of the parity of the silver coins, the Chinese Government to open credit accounts in London, Paris, Berlin, St. Petersburg, Yokohama, and New York, against which it may draw gold bills at a fixed rate somewhat above the usual banking rates. Such drafts to be made only under the direction of the Controller of the Currency, but to be made on demand for all depositors of the new silver coins in sums of not less than, say, 10,000 taels.

10. Should it be necessary to make a loan for the establishment of a general monetary system with adequate exchange funds, it to be secured by sources of revenue sufficient to yield an amount which will provide for the needed interest and sinking fund, such revenues to be managed in a way satisfactory to the parties interested.

11. The seigniorage profit from coinage to be kept as a separate fund. Whenever 500,000 taels' worth shall have been accumulated, it to be placed as a gold deposit with the several foreign depositaries in proportion to drafts made upon them. This process to be continued till 25,000,000 taels' worth shall be in the gold fund on deposit.

12. For replenishing the gold fund after its reduction by drafts, the Controller to honour silver drafts drawn by the foreign agents of the Treasury in exchange for gold at rates fixed by the Controller.

13. Provision to be made for a banking law under which bank notes kept at par with the legal-tender currency may be issued by responsible banks under the supervision of the Controller.

14. As rapidly as is practicable the new currency to be introduced into the various provinces, the Controller making use of the local governments, banks, business houses, and such other agencies as are best suited to the purpose.

15. Within five years the new system to be introduced into all the

treaty ports and as far as possible elsewhere. Not later than five years all customs duties to be collected in terms of the new currency. Local taxes to be collected in new currency as fast as it is adopted in provinces, and provisions also to be made for the proper accounting for taxes under the new system.

16. The powers to be asked to accept silver in payment of their indemnity for ten years. Thereafter gold or its equivalent to be paid. If necessary, account being kept of the loss from the acceptance of silver, the balance to be adjusted at the time of each payment, and to be paid later in installments.

17. The new system to be put into effect when 25,000,000 of the new coins are ready for circulation.

18. The Controller and the representatives of the powers to be authorized to recommend economic reforms to the Imperial Government.

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### No. 5.

[Handed in June 15, 1903.]

#### POSITION OF THE AMERICAN COMMISSION.

1. The adoption of a stable exchange in China and other silver-using countries, with a view to benefiting the export trade of Great Britain, the United States, and other gold-standard countries, has been the primary and controlling purpose of the American Commission.

2. It is not the purpose of the Commission of the United States to promote bimetallism or any movement designed primarily to raise the price of silver. They have specific instructions not to favor an international monetary conference.

3. The plan of the American Commission is designed to correct the evils in fluctuating exchange with China and other silver countries by taking under Government control one of the two branches of the problem of supply and demand for currency, by placing the control of the quantity of coins in the hands of the Government, and by making proper provision for maintaining them at par with gold.

4. The American Commission call attention to the fact that the essential purpose of their proposal is to extend economic benefits to the commerce of Great Britain and her dependencies and that of other manufacturing and exporting countries, and must, therefore, be looked at from the broad economic standpoint of national interests, and not simply from the standpoint of the fiscal benefits or disadvantages to one or more branches of the Government.

5. The interests of the exporting nations are also seriously involved in the extension of a stable exchange standard in many countries of South America and in the undeveloped dependencies of the European powers in Asia and Africa, and it is the belief of the American Commission that action for placing these countries upon a stable basis, with the result of great benefits to trade, would be hastened if Great Britain would lead in the support of a plan for the early inauguration of such a system in China.

6. The United States and Mexico are thus acting in the common interest of all exporting nations, of which Great Britain is the chief. Mexico is offering to take risks and to make sacrifices in order to place her system upon a stable basis that she may invite the investment of foreign capital in Mexico and create a wider market for for-

foreign products. The United States feel justified, therefore, in asking that other nations having a large export trade deal with the matter in the same liberal spirit of regard for the economic interests of all civilized nations.

7. Two methods of promoting stability of exchange with China have been suggested: (1) The creation of a token coin upon a fixed gold basis, and (2) measures for giving steadiness to the price of silver bullion. Either of these methods alone, if carried to its ultimate conclusion, might accomplish the result, but the employment of both would better assure its early accomplishment.

8. If the proposal is not adopted, that a gold parity shall be given at once to the currency system of China, then it becomes of prime importance that exchange should be stabilised, if possible, by giving some degree of stability to the price of silver bullion.

9. To fail to adopt either the method of establishing a gold par or that of giving stability to silver bullion is to leave the Chinese situation exactly where it is in respect to the promotion of foreign trade, at least for many years to come. While the employment of both methods of securing stability would best conduce toward the desired results, it is clear that if one is rejected the adoption of the other becomes of paramount importance.

10. To inaugurate a plan of uniform silver coinage throughout the Empire, without any attempt to establish parity with gold or to give stability to silver bullion, would only afford a better medium of exchange in the interior of China without direct benefit to foreign trade. It would, moreover, greatly increase the difficulties in the future establishment of the gold standard:

(1) By the danger, if not the certainty, of miscalculating the point at which free coinage should be suspended and of beginning to raise the coins to parity with gold, besides the difficulty of securing from the Chinese Government in the uncertain future the needed action when the proper time should come;

(2) By supplying the country with a currency which would need to be contracted in order to raise it to gold parity, with no possibility of calculating beforehand the amount of contraction or length of time needed, thus unsettling business for some years; and

(3) By fixing a range of high prices on the low bullion standard of the new coin, which would certainly lead to vigorous opposition from producers and dealers whenever a raising of the standard to gold should be proposed, since the fall in prices which might result would be burdensome to trade.

11. It would be unfortunate for the political and economic interests of China, as well as those of the nations interested in trade with her, if her monetary system should be organized without regard to the joint interests of all of them. The American delegates therefore have not felt that it was desirable to leave to one power alone the initiative in putting the monetary reform in execution in China without the approval of other powers having important interests there. They feel that, in view of the importance of the trade of Great Britain and the United States and the possibility of finding in China a wide market for their surplus products under a wise currency system, it is natural that these powers should lend every encouragement to the achievement of this important reform.

## IV.—PAPERS PRESENTED TO THE FRENCH COMMISSION.

1. *Memorandum présenté au Gouvernement français par la Commission du Change International des Etats-Unis d'Amérique.*

Nous sommes assurés de pouvoir compter, de la part de la France, sur un bienveillant accueil, non seulement parce que les rapports de nos gouvernements et de nos peuples ont toujours été, au cours de notre histoire, empreints de cordialité et de sympathie, mais aussi parce que nous croyons fermement que notre mission ne sert pas seulement les intérêts des Etats-Unis, mais aussi ceux de la France et des autres pays.

La Commission Américaine du Change International se présente au Gouvernement français au nom du Président des Etats-Unis, qui l'a nommée avec l'autorisation du Congrès pour accéder aux désirs des gouvernements du Mexique et de la Chine, qui avaient sollicité ses bons offices.

L'objet essentiel de notre mission est d'obtenir l'adoption d'un étalon avec un taux stable de change pour les systèmes monétaires de la Chine et des autres pays à étalon d'argent. La requête du Mexique et de la Chine, et l'empressement cordial des Etats-Unis à y répondre, se justifient par le fait que les deux pays ont compris la nécessité de mettre fin aux fâcheux effets qui résultent des fluctuations du change entre pays à étalon d'argent et pays à étalon d'or.

Les inconvénients dont souffrent les importateurs dans les pays dont les systèmes monétaires ne sont pas fondés sur l'or, et leur répugnance naturelle à risquer leur crédit et leur profit par suite de l'impossibilité d'évaluer le coût des marchandises importées, ont produit des résultats qui menacent de paralyser le commerce des grandes nations manufacturières avec la Chine et même avec leurs propres colonies, où l'étalon d'argent est en vigueur. C'est pourquoi la proposition des Etats-Unis en vue de prendre des mesures pour introduire de la stabilité dans les systèmes monétaires des pays à étalon d'argent est de première importance pour les nations qui cherchent à vendre leurs produits sur les marchés étrangers et d'obtenir des placements sûrs et profitables pour leurs épargnes. C'est une question qui, à notre avis, devrait être envisagée par les nations de manufactures et d'exportation, au point de vue général de leurs intérêts nationaux et non simplement au point de vue des avantages ou des désavantages financiers d'une ou de plusieurs des branches du gouvernement. Ce sujet est heureusement un de ceux où l'intérêt des uns est l'intérêt de tous et à propos duquel il ne saurait y avoir, sur les principes essentiels, de conflit d'intérêt national.

Les Etats-Unis se sentent autorisés, dès lors, à demander que les autres nations qui ont un grand commerce d'exportation, surtout avec des pays à étalon d'argent, se joignent à eux pour régler la question dans un esprit libéral et avec égard pour les intérêts économiques de toutes les nations civilisées.

La Commission Américaine a la ferme conviction qu'il y a une solution pratique au problème des fluctuations du change. Cette conviction, elle la fonde sur l'expérience de la France, des Etats-Unis et des Pays-Bas, et sur les plans réalisés avec succès dans l'Inde anglaise et à Java.

Nous savons que la France est en train d'étudier, pour l'Indo-Chine, un système monétaire unifié pour le pays entier, avec une monnaie d'argent maintenue au pair avec l'or. Les Etats-Unis ont déjà voté

une loi établissant un nouveau système monétaire pour les Philippines. Les besoins urgents de ces îles ne permettaient pas de retarder d'une année les remèdes exigés, quoique tous les moyens et les méthodes pour arriver à la parité du change, pour déterminer la quantité de monnaie à frapper et la rapidité avec laquelle il convient de la frapper, et pour maintenir le système, aient été laissés à la discrétion du gouvernement des Philippines, qui sera libre d'agir à sa guise, au hasard des événements, à la lumière de l'expérience des autres pays et sollicitant tels avis qui pourront lui paraître utiles.

La république du Mexique, dont les progrès commerciaux et la richesse grandissante ont été un des événements les plus remarquables de l'histoire économique de notre temps, est sur le point d'étudier une mesure analogue pour donner de la stabilité à ses relations monétaires avec les Etats-Unis, la Grande-Bretagne et les autres pays à étalon d'or avec lesquels elle est en relations commerciales, au risque même d'un préjudice sérieux pour ses intérêts miniers.

Comme les grandes Puissances sont profondément intéressées à ce que la Chine soit en mesure de payer l'indemnité exigée d'elle, nous avons pensé qu'elles seraient toutes disposées à étudier avec attention un projet d'établissement, pour la Chine, d'une monnaie nationale à étalon d'or, avec l'espoir, d'ailleurs, que ce nouveau système monétaire la rendrait plus apte et mieux disposée à faire face à ses engagements. D'autre part, et abstraction faite de cet intérêt général, les relations de plus en plus étroites qui se produisent entre les provinces méridionales de la Chine et les dépendances limitrophes de la France nous ont portés à compter sur l'intérêt tout particulier de la République Française.

Nous désirons établir clairement, dès le début, comme le Mexique et la Chine l'ont déclaré dans leurs notes au gouvernement des Etats-Unis, que nous n'avons nulle intention de chercher à modifier les systèmes monétaires d'aucun des pays à étalon d'or; il n'est pas davantage notre objet principal d'influer sur les prix du lingot d'argent, quoique les Etats-Unis ne puissent, en leur qualité de grands producteurs d'argent, rester entièrement indifférents à une question de nature à en affecter sérieusement la valeur. Il n'est pas non plus dans l'intention de notre gouvernement de faire un effort pour ressusciter la question d'un accord bimétallique international. Il reconnaît, en effet, qu'un accord de cette nature, quels qu'en aient pu être les avantages il y a quelques années, est maintenant écarté du domaine de la politique pratique.

Le gouvernement des Etats-Unis ne cherche pas à arriver à une uniformité absolue dans les systèmes monétaires des pays de l'Extrême-Orient, ni à obtenir des traités irrévocables touchant ces systèmes. Il veut simplement, par des consultations amicales et par des échanges de vues, amener, dans la mesure où cela paraîtra possible, une harmonie des systèmes monétaires du monde. Il estime, en effet, que cette harmonie contribuera, d'une part, à la prospérité des pays neufs en leur donnant le bénéfice de cette stabilité d'étalon monétaire qui a enrichi la France, la Grande-Bretagne, les Etats-Unis, et d'autres nations qui sont dans des conditions similaires; et, d'autre part, elle augmentera la prospérité industrielle de ces nations plus puissantes, en créant de nouveaux marchés pour leurs produits et ouvrant de nouveaux débouchés pour le placement de leurs épargnes.

Dans cette œuvre, le gouvernement des Etats-Unis pense qu'il peut compter avec confiance sur la sympathie éclairée d'une nation qui, depuis le commencement de notre histoire, a marché avec la nôtre, la

main dans la main, dans les questions les plus diverses et surtout dans celles qui ont trait à la politique monétaire de nos pays respectifs.

En résumé, il désire, avec le concours de la France et des autres Puissances, atteindre les résultats suivants:

1°. Etablir pour la Chine une monnaie d'argent uniforme, établie et maintenue d'une manière stable, au pair de l'or, dans le rapport légal de 32 à 1.

2°. Obtenir des systèmes monétaires semblables à celui recommandé pour la Chine, pour autant de possessions coloniales des Puissances européennes qu'il sera possible, et pour d'autres nations à étalon d'argent, et obtenir la plus grande uniformité possible entre ces monnaies.

3°. Comme moyen efficace de maintenir plus facilement la parité des monnaies d'argent et d'or dans les pays mentionnés plus haut, obtenir autant de stabilité que possible dans le prix du lingot d'argent, par la régularisation des achats de l'argent dont les divers pays ont réellement besoin pour le monnayage.

C'est pourquoi nous prenons la liberté de vous prier de nous mettre en relation avec tels de vos fonctionnaires qui auraient étudié le sujet, ou avec d'autres personnes, à votre choix, qui seraient familières avec la situation monétaire et commerciale de l'Extrême-Orient, spécialement de l'Indo-Chine et de la Chine, de sorte que nous puissions leur soumettre nos plans, en vue de mesures pratiques que le Gouvernement français pourra plus tard juger bon d'adopter.

[Translation.]

*1. Statement presented to the Government of France by the Commission on International Exchange of the United States of America.*

We trust that we shall receive a kindly welcome in France, not only because the relations between our Governments and peoples have been throughout our history cordial and sympathetic, but also because our mission is one which we frankly believe to be not merely for the benefit of the United States but equally for that of France as well as of all other countries.

The American Commission on International Exchange presents itself to the French Government in pursuance of an appointment by the President of the United States, under authority of Congress, in compliance with a request from the Governments of Mexico and China for the good offices of the United States. The essential object of our mission is to secure the adoption of a stable exchange standard in the monetary systems of China and other silver-using countries. The request of Mexico and China and the prompt and cordial response of the United States are based upon the importance to the commercial world of bringing to an end the evils which result from the fluctuations of exchange between the silver-using countries and the gold-standard countries.

The general stress suffered by the importers in countries whose currency systems are not based upon gold, and their consequent disinclination to risk profit and credit by reason of their inability to reckon the cost of imported goods, have produced results which threaten paralysis of the trade of the great manufacturing nations with China and even with their own dependencies where silver is the standard of value. The proposal of the United States, therefore, that steps be taken to introduce stability into the monetary systems of the silver-

using countries is of universal interest to the nations which seek to sell their national products in foreign markets and to obtain safe and profitable investment for their accumulated savings. The question is one which we believe should be looked at by the manufacturing and exporting nations from the broad economic standpoint of their national interests and not simply from the standpoint of the fiscal benefits or disadvantages to one or more bureaus of the government. It is fortunately a subject upon which the interest of one is the interest of all and upon which there can be no real conflict of national interest upon the essential principles involved. The United States feels justified, therefore, in asking that other nations having a large export trade, especially in silver-using countries, join them in dealing with the matter in a liberal spirit of regard for the economic interests of all civilized nations. That a solution of the problem of fluctuating exchange is practicable is the firm belief of the American Commission, based upon the experience of France, the United States, and Holland and upon the policies successfully carried out in British India and Java.

It is understood that France has under consideration for Indo-China the policy of adopting a general unified monetary system for the entire country, with silver coins to be established at a fixed parity with gold. The United States has already passed a general law regarding a new monetary system for the Philippines. The pressing needs of these islands could not well permit delay for another year, although practically all means and methods of securing parity of exchange, of determining the extent and rapidity of the coinage and of the maintenance of the system have been left to the Philippine government to determine, as occasion shall arise, in the light of the experience of other countries and on such advice as it shall seem wise to secure.

The Republic of Mexico, whose progress in commerce and wealth has been one of the most remarkable events of recent economic history, is about considering the enactment of a similar measure for giving stability to the monetary relations between herself and the United States, France, and the other gold-standard countries with whom she conducts her trade, even though such a change in policy involves risk of serious injury to her mining interests.

Since the interests of the great powers are involved in the ability of China to pay the indemnity, it has been hoped that they all might be willing to give careful attention to establishing a national currency, maintained on a gold basis, for China, in the reasonable expectation that this might prove a potent means of rendering China the more ready and able to meet her obligations; while, aside from this general interest, the growing closeness of intercourse between the southern provinces of China and the contiguous dependencies of France has led us to expect quite special interest on the part of the French Republic.

We wish to state clearly at the outset, as Mexico and China stated in their notes to the United States Government, that it is not the intention of our Government to seek to change the monetary systems of any of the gold-standard countries; it is not its primary object to influence the price of silver bullion, although the United States, as one of the greatest producers of silver, can not be entirely indifferent to any matter which might seriously affect its value; nor is it the intention of the Government to make any effort to revive the question of an international bimetallic agreement. It recognizes the fact that whether such an agreement were desirable or not some years ago, now,

at any rate, such a movement is not within the scope of practical politics.

The Government of the United States does not seek to secure absolute uniformity in the monetary systems of the countries of the East, nor to secure binding treaty agreements governing those systems. It simply desires by consultation and comparison of views to promote throughout the world, so far as may be found practicable, such a harmony of monetary systems as will tend on the one hand to promote the prosperity of the undeveloped countries by giving them the benefits of the same stability of monetary standard which has enriched France, Great Britain, the United States of America, and other nations under similar conditions; and on the other hand, to promote the industrial prosperity of these richer nations by the wider markets afforded for their products and the new openings created for the profitable investment of their savings. In these general objects the Government of the United States feels that it can count with a certain degree of confidence upon the enlightened sympathy of a nation which has from the beginning of our history walked side by side with us in close sympathy, especially in questions which have affected the monetary policy of our respective countries.

It wishes in brief to secure the cooperation of France and of the other powers to accomplish the following results:

1. To secure for China a uniform silver currency, established and maintained on a fixed parity with gold at a ratio of about 32 to 1.
2. To secure for as many as practicable of the colonial possessions of the different European powers and for other silver-using countries currencies similar to that recommended for China, and to obtain as great uniformity as possible among these currencies.
3. As a potent means of maintaining easily the parity of silver coins with gold in all the countries above indicated, to secure as great stability as possible in the price of silver bullion by means of regularity of purchase of the silver actually needed for coinage purposes.

We, therefore, take the liberty of requesting that we be brought into communication with such of your officials as are closely related to the subject or with other persons whom you may prefer, who are familiar with the monetary and commercial situation in the Far East, especially in Indo-China and China, in order that we may lay before them our plans with reference to such future action as the Government of France may think it wise to take.

## *2. Projet d'un système monétaire pour la Chine.*

1°. Le gouvernement impérial chinois prendrait sans retard des mesures satisfaisantes pour la majorité des Puissances intéressées dans l'indemnité pour établir un système monétaire d'ensemble consistant, en majeure partie, de pièces d'argent d'une valeur fixe en or.

2°. Pour l'établissement et l'administration de ce système, la Chine serait invitée à solliciter et à employer des concours étrangers compétents.

3°. Pour mettre ce plan à exécution, le gouvernement Chinois nommerait un contrôleur de la monnaie, de nationalité étrangère, qui serait chargé de l'administration du système pour la Chine. Il aurait des collaborateurs pour s'occuper de la frappe de la monnaie ou de tout autre travail qu'il aurait à prescrire.

4°. Le contrôleur ferait des rapports mensuels, indiquant en détail la condition de la monnaie, la quantité en circulation, les prêts, les traites sur les crédits étrangers, etc.

Les comptes devraient à intervalles raisonnables être ouverts à l'inspection de représentants accrédités par les Puissances qui ont droit à l'indemnité. Ces représentants aussi bien que les collaborateurs du contrôleur auraient le droit de présenter des suggestions et des avis.

5°. Le gouvernement chinois adopterait une unité monétaire étalon composée de \* \* \* grains d'or et valant approximativement un taël en or ou un peu plus d'un dollar mexicain. Des mesures seraient prises pour la frappe libre de pièces appropriées, multiples de cet étalon, 5, 10, 20, sur demande et moyennant un prix raisonnable. A l'occasion, quelques pièces pourraient être frappées pour le compte du gouvernement.

6°. La Chine devrait frapper aussi rapidement que possible, 200,000,000 de pièces, avec un dessin convenable, à peu près de la dimension d'un dollar mexicain, pour la circulation dans le pays. Celles-ci devraient être maintenues au pair avec la monnaie d'or dans le rapport de 32 à 1 environ. D'autres devraient être frappées plus tard, au fur et à mesure des besoins, ainsi qu'il est indiqué dans les paragraphes qui suivent. Il faudrait établir aussi des pièces subsidiaires et divisionnaires convenables.

7°. Les pièces d'or et d'argent devraient être, les unes et les autres, reçues au pair, en paiement pour toutes les sommes dues au gouvernement chinois dans n'importe quelle province. Quand les dettes encourues l'ont été en argent, les nouvelles pièces pourraient être offertes à la place, avec leur valeur légale.

8°. Le gouvernement pourrait, de temps en temps, à sa volonté et de concert avec les vice-rois, déclarer par proclamations dans les différentes provinces, que les nouvelles monnaies ont cours légal pour le paiement des dettes encourues après une date fixée dans la proclamation. Les dettes antérieures seraient payées comme cela avait été entendu.

9°. Pour les dépenses causées par l'installation du système et pour le maintien de la parité des monnaies d'argent, le gouvernement chinois devrait ouvrir des comptes créditeurs à Londres, Paris, Berlin, Saint-Petersbourg, Yokohama et New-York, sur lesquels il pourra tirer des traites d'or à un taux fixe, quelque peu supérieur au taux habituel des banques. Ces traites devraient être faites seulement sous la direction du contrôleur de la monnaie, mais elles devraient être faites sur demande pour tous les dépositaires de pièces de la nouvelle monnaie qui aurait déposé des sommes au moins égales à dix mille taëls, par exemple.

10°. S'il était nécessaire de faire un emprunt pour l'établissement d'un système monétaire général avec une réserve suffisante pour le change, cet emprunt devrait être garanti par des sources de revenu suffisantes pour faire face à la fois à l'intérêt et à l'amortissement, ces revenus devant être administrés d'une manière satisfaisante pour les parties intéressées.

11°. Les profits du seigneurage provenant de la frappe devraient être conservés comme un fonds séparé. Dès qu'on aurait accumulé la valeur de 500,000 taëls, ils devraient être placés comme fonds de réserve d'or chez les différents dépositaires étrangers, dans la proportion des traites tirées sur eux. Ce système devrait être continué jusqu'à ce qu'une somme de la valeur de 25,000,000 taëls se trouvât en dépôt dans la réserve d'or.

12°. Pour alimenter de nouveau le fonds de réserve d'or après qu'il aurait été réduit par des traites, le contrôleur ferait honneur aux

traites d'argent tirées par les agents étrangers du Trésor, en échange de l'or, à des taux fixés par le contrôleur.

13°. Des dispositions seraient prises pour passer une loi sur les banques, aux termes de laquelle des billets de banque maintenues au pair avec la monnaie légale, pourraient être émis par des banques de crédit solide, sous la surveillance du contrôleur.

14°. La nouvelle monnaie serait introduite aussi rapidement que cela serait praticable, dans les diverses provinces, le contrôleur ayant recours aux gouvernements locaux, aux banques, aux maisons et à tels autres intermédiaires qui seraient le mieux qualifiés pour cet objet.

15°. Dans l'espace de cinq années le nouveau système serait introduit dans tous les ports à traités, et, autant que possible, ailleurs. Tous les droits de douane seraient perçus dans la nouvelle monnaie, après une durée qui ne devra pas excéder cinq années. Les taxes locales seraient perçues dans la nouvelle monnaie aussitôt qu'elle aura été adoptée dans les provinces, et des dispositions devraient être prises pour que la comptabilité des impôts fût tenue d'après le nouveau système.

16°. Les Puissances seraient invitées à accepter de l'argent en paiement pour leur indemnité, pendant dix années. Après cela on payerait en or ou en son équivalent. Si c'était nécessaire, on tiendrait compte de la perte éprouvée par suite de l'acceptation de l'argent, et la différence, fixée au moment de chaque paiement, serait plus tard réglée par versements partiels.

17°. Le nouveau système serait mis en opération quand 25,000,000 pièces de la nouvelle monnaie seraient prêtes pour la circulation.

18°. Le contrôleur et les représentants des Puissances devraient être autorisés à recommander des réformes économiques au Gouvernement Impérial.

[Translation.]

## *2. Suggestions for a monetary system for China.*

1. The Chinese Imperial Government promptly to take effective steps, satisfactory to a majority of the indemnity treaty powers, to establish a general monetary system consisting chiefly of silver coins with a fixed gold value.

2. In the establishment and management of this system China to be asked to invite and employ acceptable foreign assistance.

3. In pursuance of this plan the Chinese Government to appoint a foreign controller of the currency, who shall have general charge of the system for China; he to have acceptable associates in charge of the mint or of such work as he may prescribe.

4. The controller to make monthly reports in detail of the condition of the currency, including amounts in circulation, loans, drafts on foreign credits, etc.; his accounts to be open at reasonable times to inspection by accredited representatives of the powers interested in the indemnity; such representatives, as also the associate controllers, to have the right of suggestion and recommendation.

5. The Chinese Government to adopt a standard unit of value; the unit to consist of \* \* \* grains of gold and to be worth presumably approximately the gold value of a tael, or somewhat more than a Mexican dollar; provision to be made for the free coinage of suitable pieces multiples of this unit, 5, 10, and 20, on demand, for a reasonable coinage charge; eventually some to be coined on Government account.

6. China to coin as rapidly as possible 200,000,000 silver coins, with

an appropriate device, about the size of a Mexican dollar, for circulation in the country; these to be maintained at par with the standard gold unit at a ratio of about 32 to 1; more to be coined thereafter according to needs, as indicated by provisions following; subsidiary and minor coins of suitable weight and value to be provided.

7. Both the gold and silver coins to be receivable at par in payment of all obligations due to the Chinese Imperial Government in any of the provinces. When such obligations have been made in silver, the new coins may be tendered instead at their coin value.

8. The Government at its discretion, in conjunction with the viceroy, from time to time to declare by proclamation in the various provinces the new coins legal tender for debts incurred after a date fixed in the proclamation; previous debts to be paid as contracted.

9. For the expenses of the inauguration of the system and for the maintenance of the parity of the silver coins, the Chinese Government to open credit accounts in London, Paris, Berlin, St. Petersburg, Yokohama, and New York, against which it may draw gold bills at a fixed rate somewhat above the usual banking rates. Such drafts to be made only under the direction of the Controller of the Currency, but to be made on demand for all depositors of the new silver coins in sums of not less than, say, 10,000 taels.

10. Should it be necessary to make a loan for the establishment of a general monetary system with adequate exchange funds, it to be secured by sources of revenue sufficient to yield an amount which will provide for the needed interest and sinking fund, such revenues to be managed in a way satisfactory to the parties interested.

11. The seigniorage profit from coinage to be kept as a separate fund. Whenever 500,000 taels worth shall have been accumulated, it to be placed as a gold deposit with the several foreign depositaries in proportion to drafts made upon them. This process to be continued till 25,000,000 taels' worth shall be in the gold fund on deposit.

12. For replenishing the gold fund after its reduction by drafts, the Controller to honor silver drafts drawn by the foreign agents of the Treasury in exchange for gold at rates fixed by the Controller.

13. Provision to be made for a banking law under which bank notes kept at par with the legal-tender currency may be issued by responsible banks under the supervision of the Controller.

14. As rapidly as is practicable the new currency to be introduced into the various provinces, the Controller making use of the local governments, banks, business houses, and such other agencies as are best suited to the purpose.

15. Within five years the new system to be introduced into all the treaty ports and as far as possible elsewhere. Not later than five years all customs duties to be collected in terms of the new currency. Local taxes to be collected in new currency as fast as it is adopted in provinces, and provisions also to be made for the keeping of the tax accounts under the new system.

16. The powers to be asked to accept silver in payment of their indemnity for ten years. Thereafter gold or its equivalent to be paid. If necessary, account being kept of the loss from the acceptance of silver, the balance to be adjusted at the time of each payment, and to be paid later in installments.

17. The new system to be put into effect when 25,000,000 of their new coins are ready for circulation.

18. The controller and the representatives of the powers to be authorized to recommend economic reforms to the Imperial Government.

3. *Raisons pour l'adoption, partout où cela est possible, d'un rapport légal uniforme de 32 à 1 environ, et d'une unité monétaire à peu près commune.*

1°. Il serait avantageux que le rapport pour la frappe de monnaie d'argent, d'après un système de change fondé sur l'or, fût fixé à un taux qui se rapprochât sensiblement de la valeur de la monnaie d'argent en lingot et qui fût conforme au système monétaire déjà établi dans les pays à circulation d'argent.

2°. Il serait avantageux que le rapport légal pour la frappe de l'argent fût fixé un peu au-dessus de la valeur actuelle du lingot, afin de pouvoir tenir compte des fluctuations possibles du prix du lingot dans les deux sens.

3°. La baisse dans la valeur de l'argent accentuerait la différence entre la valeur réelle de la monnaie et sa valeur légale dans le système du change d'or, pesant ainsi plus lourdement sur le crédit du gouvernement monnayeur et augmentant le danger de la contrefaçon. Mais cette baisse, en elle-même, ne compromettrait pas nécessairement le système, comme on le voit pour la circulation de la monnaie des pays de l'Union latine et des Etats-Unis, à une valeur légale plus que double de sa valeur en lingot. Si, d'autre part, la hausse dans le prix du lingot d'argent élevait le prix au-dessus du rapport légal de la frappe, même pour un temps très court, elle risquerait de provoquer une poussée de monnaie vers les ateliers de fonte et de priver le pays de sa monnaie.

4°. L'émission d'une monnaie reposant sur un système de change fondé sur l'or, dans le rapport légal de 32 à 1, satisferait à ces conditions au prix actuel de l'argent, parcequ'elle laisserait une marge d'environ quinze pour cent entre la valeur de la monnaie en or et la valeur en lingot du métal qu'elle contiendrait.

5°. Le rapport légal de 32 à 1 est préférable au rapport actuel des pays à étalon d'or ou à tout autre rapport donnant à l'argent une valeur supérieure à 32 à 1, parcequ'il diminue le profit qui pourrait être tiré de la frappe privée et frauduleuse de monnaies de poids légal, qui se pratique dans une mesure considérable dans le cas des monnaies d'argent des pays de l'Union latine, des Etats-Unis et de l'Inde anglaise, et qui constituerait une plus grande menace dans les pays où le pouvoir central est moins fort et les moyens de découvrir la fraude moins efficaces.

6°. Un rapport de 32 à 1 aurait l'avantage de permettre l'émission par le Mexique, la Chine, les Philippines, les *Straits Settlements*, Hong-Kong et les Colonies françaises de l'Inde, de monnaies d'argent sensiblement pareilles à celles maintenant employées par leurs habitants, facilitant de la sorte l'introduction d'un système stable sans troubler trop profondément les habitudes actuelles.

7°. Le rapport de 32 à 1 a l'avantage de représenter à peu près le rapport commercial entre le lingot d'or et d'argent qui existait il y a deux ans et qui avait été maintenu pendant plusieurs années, et auquel les prix et les valeurs des pays à étalon d'argent s'étaient adaptés dans une large mesure.

8°. C'est pourquoi l'adoption d'un étalon de change d'or dans le rapport de 32 à 1 pour les pays qui font usage de l'étalon d'argent, aurait le mérite de ne pas jeter trop de trouble dans le règlement équitable des contrats passés il y a deux ans, et comme, d'autre part, les prix et les salaires n'ont pas partout suivi la baisse de l'argent durant l'année passée, un pareil étalon ne causerait pas de préjudice sérieux dans le règlement des contrats passés depuis cette époque.

9°. Il est très désirable que les pays qui sont en train de réorganiser leurs systèmes monétaires sur la base d'un système de change d'or, adoptassent un rapport de frappe à peu près uniforme, de façon à leur permettre de se concerter pour la protection contre les fluctuations des prix de l'argent et contre le danger du faux-monnayage. Une uniformité de ce genre faciliterait le commerce entre pays ayant adopté un pareil rapport et ferait mieux comprendre le mécanisme de l'étalon de change d'or et les méthodes par lesquelles il est maintenu.

10°. Si un effort est tenté pour régulariser le prix du lingot d'argent en régularisant les achats d'argent, faits par le Gouvernement pour le monnayage, et si l'on essaye d'empêcher la hausse de l'argent au dessus d'un point donné, en suspendant les achats quand ce point est atteint, cette méthode pourrait être facilement suivie si tous les pays intéressés cessaient leurs achats chaque fois que le prix de l'argent atteignait le chiffre de leur rapport commun de monnayage.

D'autre part, un ou plusieurs des pays qui font usage d'un rapport inférieur verraient fondre leur monnaie si d'autres pays continuaient à acheter après que le prix de l'argent se serait élevé au-dessus de leur rapport.

11°. Il serait avantageux que non seulement il y eût un rapport qui fût à peu près conforme aux conditions du marché et que ce rapport fût uniforme, mais, autant que cela est faisable, qu'une unité commune fût adoptée pour la monnaie des pays Orientaux.

12°. L'adoption d'une unité commune pour la Chine, pour les colonies françaises de l'Inde, pour Hong-Kong et d'autres dépendances anglaises et pour les Philippines, faciliterait grandement le commerce entre tous ces pays et faciliterait le commerce d'exportation des pays à étalon d'or dans la mesure où leurs dépendances serviraient de centres de distribution pour leur production nationale. Ainsi l'adoption d'une unité commune faciliterait, par exemple, les exportations anglaises des Straits Settlements en Indo-Chine et, d'autre part, faciliterait les exportations françaises à Hong-Kong et aux Philippines, comme en Indo-Chine et dans l'Empire Chinois.

13°. Même si l'adoption d'une unité commune n'était pas universelle en Extrême-Orient, l'adoption d'une unité pareille par quelques pays seulement leur serait avantageuse, et, en tout cas, il ne saurait y avoir de système plus préjudiciable pour eux que la continuation de la multiplicité des systèmes contradictoires qui existent en ce moment.

14°. La Commission des Etats-Unis n'a pas l'intention d'établir une union monétaire qui rendrait la monnaie d'un pays monnaie légale dans un autre pays. Il semble préférable et d'une solution plus aisée que chaque gouvernement soit libre d'adapter son système monétaire aux nécessités locales et qu'il soit responsable de l'intégralité de son système de sorte que la faiblesse ou les erreurs d'un gouvernement ne puissent pas réagir défavorablement sur le système monétaire des autres pays. La Commission des Etats-Unis croit que l'uniformité approximative dans le rapport légal et dans l'unité n'enchaîne pas absolument les systèmes les uns aux autres, mais présenterait, somme toute, l'avantage d'un système commun pour faciliter la compatibilité, préparer les listes de prix et les factures, payer les frais de douane, évaluer, d'une manière certaine, les profits des transactions commerciales et servir, ainsi, au progrès du commerce pour le bénéfice commun des pays à étalon d'argent et des pays à étalon d'or.

[Translation.]

3. *Reasons for the adoption, where practicable, of a uniform coinage ratio of about 32 to 1 and of a like monetary unit.*

1. It is desirable that the rate for the coinage of standard silver coins under a gold exchange system should be fixed at a point which conforms approximately to the value of silver coins and to the coinage system already established in countries having a silver currency.

2. It is desirable that a ratio for the coinage of silver should be fixed somewhat above the present bullion value of the metal, in order to allow for possible fluctuations in its bullion price in the upward as well as downward direction.

3. Fluctuations downward in the value of silver would increase the difference between the bullion value of the silver coins and their face value under a gold exchange standard, thereby imposing a heavier burden upon the credit of the issuing government and increasing the danger of counterfeiting, but such fluctuations would not in themselves necessarily defeat the system, as is shown by the circulation of the coins of the countries of the Latin Union and of the United States at a face value more than double their bullion value. Fluctuations upward in the price of silver bullion, on the other hand, if they carried the price above the coinage ratio even for a short time, would involve serious risk of driving the coins to the melting pot and denuding the country of its currency.

4. The issue of coins upon a gold-exchange basis at the ratio of 32 to 1 would meet these conditions at the present price of silver, because it would afford a margin of about 15 per cent between the gold-exchange value of the coin and the bullion value of the metal which it would contain.

5. A ratio of 32 to 1 is preferable to the existing ratio of the gold-standard countries or to any ratio giving a higher value to silver than 32 to 1, because it diminishes the profit in private and fraudulent coinage of coins of full weight, which is being carried on to a considerable extent in the case of the silver currencies of the countries of the Latin Union, the United States, and British India, and which would be a still greater menace in countries where the central authority is less strong and the means of detecting fraud are less efficient.

6. A ratio of 32 to 1 would have the merit of permitting the issue of silver coins by Mexico, China, the Philippines, the Straits Settlements, Hongkong, and the French possessions in India, conforming closely to those now in general use among their people, thereby facilitating the introduction of a stable system without serious disturbance to existing customs.

7. The ratio of about 32 to 1 has the advantage of representing substantially the commercial ratio between gold and silver bullion of about two years ago, which had then been maintained for several years, and to which prices and values in the silver countries had to a considerable extent become adjusted.

8. The adoption of a gold-exchange standard, therefore, upon the ratio of 32 to 1 in countries now on a silver basis would have the merit of interfering little with the equitable settlement of contracts made up to two years ago, and in view of the fact that prices and wages have not in all cases responded at once to the fall in silver during the past year, such a standard would do but little injustice in the settlement of contracts made since that date.

9. It is very desirable that the countries which are reorganizing their monetary systems upon a gold-exchange basis should adopt a ratio for coinage approximately uniform, in order to enable them to cooperate in guarding against fluctuations in the price of silver and the danger of counterfeiting. Such uniformity will facilitate trade between countries having such a common ratio and make the mechanism of the gold-exchange standard and the methods by which it is maintained better understood.

10. If it is attempted to steady the price of silver bullion by giving regularity to government purchases of silver for coinage purposes and to prevent the rise of silver beyond a fixed point by suspending purchases when this point is reached, this policy would be much more easily carried out if all countries concerned were to stop buying whenever the price of silver reached the level of their common coinage ratio. On the other hand, one or more countries using a lower ratio would find their coins melted down if other countries continued to buy after the price of silver had advanced beyond their ratio.

11. It is desirable not only that there should be a ratio conforming somewhat to market conditions, and that this ratio should be uniform, but that as far as practicable a common unit should be adopted for the currency of oriental countries.

12. The adoption of a common unit for China, for the French possessions in India, for Hongkong and other English dependencies, and for the Philippines would greatly facilitate trade between all these countries and would facilitate the export trade of the gold countries so far as their dependencies acted as distributing centers for their home production. The adoption of a common unit would thus, for example, facilitate English exports from the Straits to Indo-China and would, on the other hand, facilitate French exports to Hongkong and the Philippines as well as to Indo-China and the Chinese Empire.

13. Even if the adoption of a common unit were not universal throughout the Orient, the adoption of such a unit by even a few countries would be advantageous to them, while in no case would they be at any greater disadvantage in their trade with other countries than by the continuance of independent and conflicting systems among all.

14. It is not proposed by the Commission of the United States that there shall be a monetary union, which would make the coins of one country legal tender in another country. It seems to be preferable and more easily attainable, that each government should be free to adapt its monetary system to local requirements and that it should be responsible for the integrity of its own system, in order that default or weakness on the part of one government should not react injuriously upon the monetary system of other countries. It is the belief of the Commission of the United States that approximate uniformity in ratio and unit would not involve the risks of linking one monetary system absolutely to another, but would afford substantially all the benefits of a common system in facilitating accounts, preparing price lists and invoices, meeting customs charges, making certain and easily ascertainable the gross and net proceeds of commercial transactions, and thereby promoting trade and investment for the mutual benefit of the silver-using countries and the gold-standard countries.

## IV.

4. *Considérations sur le prix de l'argent.*

1. *Le besoin de stabilité.*—L'objet principal de la Commission du Change International est d'obtenir, autant que cela est possible, la stabilité des taux du change, sur la base de l'étalon d'or, entre les pays à étalon d'or et les pays à étalon d'argent. Le système du change d'or dans les pays à étalon d'argent peut être établi et maintenu beaucoup plus facilement pourvu que les prix du lingot d'argent soient raisonnablement stables. Les variations du lingot d'argent par rapport à l'or sont beaucoup moins importantes que ne l'est la stabilité de son prix.

2. *Conditions présentes.*—(a) Le marché de l'argent semble être enclin à se laisser trop influencer par des considérations de sentiment. Par exemple, la première grande baisse du prix de l'argent semble avoir été causée surtout par la crainte que la demande de l'argent ne soit diminuée à la suite de l'adoption possible de l'étalon d'or par les Straits Settlements, les Iles Philippines, l'Indo-Chine française, le Siam et le Mexique. En réalité la demande n'a pas diminué sensiblement et la grande baisse semble avoir été amenée uniquement par la crainte d'une limitation possible de la demande.

(b) Dans les conditions présentes où chaque nation fait ses achats d'une manière indépendante et très irrégulièrement on ne peut pas prévoir quelle sera la demande. Il y a trois ans l'Inde acheta, dans un espace de temps très court, 60 millions d'onces. Depuis lors ses achats ont été presque nuls. Si la demande pouvait être un peu régularisée cela aiderait à donner de la stabilité au prix.

(c) La quantité d'argent sur le marché est assez bien connue.

(1) Le montant total de la production d'argent pendant plusieurs années a été, en moyenne, de 170 millions d'onces environ et cela avec des variations de prix allant de 30 pence 1/4 par once en 1900 à 21 pence 5/16 par once en 1902.

(2) La vente de l'argent est, dans une large mesure, entre les mains de quelques établissements. Le marché de Londres fixe, semble-t-il, les prix pour le monde entier. On vend régulièrement sur le marché de Londres à peu près 100,000,000 d'onces par an. De grandes organisations de fondeurs et d'affineurs d'argent des Etats-Unis ont à leur disposition de 70,000,000 à 75,000,000 d'onces par an. Le Mexique peut vendre de 25,000,000 à 30,000,000 d'onces annuellement.

3. *Effets possibles.*—(a) En conséquence, si la demande d'argent était assez régulière il serait possible à ces quelques vendeurs de maintenir un prix stable. Il serait de leur intérêt de maintenir ce prix stable même s'il n'était pas élevé.

(b) Il leur serait impossible de hausser le prix d'une façon très marquée, pourvu que les Gouvernements, qui sont les principaux acheteurs, tout en indiquant à l'avance leurs besoins probables par année, arrêtent leurs achats quand le prix atteindrait un maximum donné, 28 pence, par exemple.

(c) Si le prix du lingot d'argent approchait de la valeur légale de la monnaie, le danger de la contrefaçon serait grandement diminué.

4. *Suggestions.*—Quoique cette question soit une question entièrement commerciale et que, comme telle, elle n'intéresse pas directement le Gouvernement des Etats-Unis il est évident, cependant, que si chaque nation indiquait par avance ses besoins probables pour une période d'environ trois à cinq années et manifestait sa disposition à

satisfaire régulièrement ses besoins par des achats mensuels, cette méthode tendrait, toutes choses égales d'ailleurs, à assurer, dans une large mesure, la stabilité désirée des prix.

En même temps que les Gouvernements indiqueraient leurs achats probables il serait bon de s'entendre pour que, si, à un moment quelconque, le prix s'élevait au-dessus de 28 pence, par once, ils cessassent les achats.

[Translation.]

#### 4. *Considerations regarding the price of silver.*

1. *Need for stability.*—The chief interest of the Commission on International Exchange is to secure as far as possible stability of exchange rates on a gold basis between the gold and silver using countries. A gold-exchange system in silver-using countries can be brought about and maintained much more easily provided the price of silver bullion remains reasonably steady. Whether silver bullion is high or low as compared with gold is of less consequence than that its price remain steady.

2. *Present conditions.*—(a) The silver market seems to be affected unduly by sentiment. For example, the last great fall in the price of silver seems to have been brought about largely by the fear that since the Straits Settlements, the Philippine Islands, French Indo-China, Siam, and Mexico might all adopt a gold standard, the demand for silver would be very greatly lessened. The actual demand had not lessened materially, and the great fall seems to have been brought about simply by fear of future shrinkage of demand.

(b) Under present circumstances, with each nation buying independently and very irregularly, the demand can not be foreseen. Some three years ago India bought within a short time some 60,000,000 of ounces. Since that time its purchases have been practically nothing. If the demand could be made somewhat regular, it would aid in giving stability to price.

(c) The silver supply is fairly well known.

(1) The total amount for several years in the past has averaged about 170,000,000 ounces, and that with the price of silver varying between 30½d. per ounce in 1900 and 21½d. per ounce in 1902.

(2) The selling of silver is to a considerable extent in the hands of a few establishments. The London market apparently fixes the price for the world. There are sold regularly on the London market annually about 100,000,000 ounces. Great organizations of smelters and refiners in the United States have at their disposition from 70,000,000 to 75,000,000 ounces a year. There can be sold by Mexico from 25,000,000 to 30,000,000 ounces a year.

3. *Possible effects.*—(a) In consequence, if the demand for silver were reasonably regular, it would be possible for these few sellers to maintain a steady price. It would be for their interest to keep the price steady, even though the price were not high.

(b) It would be impossible for them to put the price very high, provided the governments, which are the chief purchasers, though indicating their probable annual needs, were to stop their buying when the price reached a certain fixed maximum, say 28d.

(c) If the price of silver were to approach closely the coining value, the danger of counterfeiting would be greatly lessened.

4. *Suggestions.*—While the matter is entirely a commercial proposition, with which the United States Government as such has nothing

to do, it is evident that if each nation were to indicate its probable needs for a period of, say, from three to five years in advance, and were to express its readiness to supply these needs steadily by monthly purchases, other things equal, that policy would tend greatly to secure the needed stability in price.

With this indication of probable purchases might well be coupled the understanding that if at any time the price went above 28d. per ounce such purchases would cease.

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V.—STATEMENT PRESENTED TO THE GOVERNMENT OF THE NETHERLANDS BY THE COMMISSION OF THE UNITED STATES.

[July 11, 1903.]

In the presentation of the subject of monetary reform for China and other silver-using countries the United States Commission on International Exchange has come for counsel and assistance to Holland as the country which has had the longest and most satisfactory experience in administering a monetary system of the general nature which it will probably be best to adopt for the silver-using countries.

The Governments of Mexico and China in January, 1903, presented a note to the Government of the United States asking its cooperation in establishing for them new monetary systems which should fix a parity of exchange between their countries and the gold-standard countries of Europe and America. In response to their request the President of the United States, acting under the authority of Congress, appointed this Commission on International Exchange, feeling that action in the direction indicated would be of benefit, not merely to those countries, but to the rest of the commercial world.

In dealing with countries whose currency systems are not based upon gold, serious losses are often suffered by merchants on account of their inability to reckon the cost of imported goods, and these commercial risks have been so great as seriously to hamper the development of trade and likewise to check the investment of capital in the silver-using countries. The evil is so serious and the losses are so general among the commercial nations that the Government of the United States felt that any proposals looking to the eradication of these evils would meet with cordial sympathy and support throughout Europe.

In the direction of the monetary reform which is under advisement the United States Government has already passed a law providing for the establishment of a new monetary system in the Philippine Islands, to consist chiefly of silver coins which shall be maintained at a parity with gold. The details of this legislation have, however, been left to the government of the Philippine Islands, to be settled as occasion may arise after due observation and consultation with the authorities on this subject, both at home and abroad.

The Republic of Mexico likewise has found it advisable to take the initial step in a monetary reform which shall give her a silver currency on a par with gold, inasmuch as her economic development of recent years is rapidly leading her to consider primarily her agricultural and manufacturing and other mining industries, instead of, as in earlier times, more particularly her silver mining interests. The English Government, in behalf of the Straits Settlements and Federated Malay States, and the French Government, in behalf of French

Indo-China, have also had under consideration the improvement of the monetary systems of those countries, and it is presumed that they will take action along somewhat similar lines. The greatest of all the silver-using countries, China, partly on account of the desire of her Government to come into closer business relations with western peoples, partly on account of her needs for better business conditions, in order that she may more readily pay to the treaty powers the indemnity due them, likewise feels the necessity of bringing her monetary system into accord with that of those nations that can deal on a parity with the gold-standard countries.

Since the interests of all the great powers are thus so closely united on this subject, the time seems peculiarly opportune for an attempt to bring them together in harmonious action along these lines, especially in aiding China to establish for herself a monetary system based upon gold.

It should be stated clearly at the outset, as Mexico and China stated in their notes to the United States Government, that no attempt will be made to change the monetary systems of any gold-standard countries, nor to reopen again for further discussion the question of an international bimetallic agreement. As a secondary matter in connection with the establishment of these new monetary systems, the question of the stability of price of silver bullion must be briefly considered, but neither the United States nor Mexico, although the interests of the two countries in this regard are slightly different, approach the other nations on this question in the attitude of sellers of silver. They come rather as commercial nations wishing to extend their trade by the establishment of an international parity of exchange which will develop their business interests. Only so far as a stable price, not a high price, of silver will aid in the establishment of such a parity of exchange are they especially interested in the price of silver.

It is not the intention to ask for absolute uniformity in the monetary systems of the countries of the East which are interested in the adoption of a new system, nor is it thought desirable to ask any of the nations to enter into binding treaties regarding any of the subjects under discussion. The ends to be accomplished can be furthered best simply by consultation, comparison of views, and by such sympathetic assistance as can be given by one country to another through acting along similar lines in a way to promote the general interests of all parties interested. In these general objects the Government of the United States has felt that the counsel and assistance of the Government of the United Netherlands would be of especial value because of the success with which that country has for a long period of years administered the government of her colonies, and especially her admirable monetary system.

The specific purposes which the Government of the United States asks the Government of the United Netherlands and other countries to promote are the following:

1. To secure for China uniform silver currency established and maintained on a fixed parity with gold at a ratio of about 32 to 1.
2. To secure for as many as practicable of the colonial possessions of the different European powers and for other silver-using countries currencies similar to that recommended for China, and to obtain as great uniformity as possible among these currencies.
3. As a potent means of maintaining easily the parity of silver coins with gold in all the countries above indicated, to secure as great stability as possible in the price of silver bullion by means of regularity

of purchase by each government of the silver actually needed for coinage purposes.

We trust that inasmuch as our purpose is of such general interest, as well as for the special interest of all countries developing trade in the Far East, we shall be placed in communication with such of your experts in monetary matters and in trade throughout the East as you may be pleased to indicate, in order that we may lay before them our plans, and by such means as may seem to you wise secure your counsel and cooperation.

NOTE.—The other papers presented to the Commission of the Netherlands were copies of those presented to the Commissions of Great Britain and France.

## VI.—PAPERS PRESENTED BY THE UNITED STATES COMMISSION TO THE GERMAN IMPERIAL COMMISSION.

### EINE ERKLÄRUNG, VON DER AMERIKANISCHEN KOMMISSION DER REGIERUNG DES DEUTSCHEN REICHES ÜBERREICHT.

[Juli 15, 1903.]

Das Deutsche Reich hat in den letzten Jahrzehnten so rasche Fortschritte auf dem Gebiet des Handels und der Industrie gemacht und in China und dem ganzen Osten so grosse Interessen erworben, dass die Regierung der Vereinigten Staaten von dem Interesse der deutschen Regierung für die Pläne überzeugt ist, welche die Kommission der Vereinigten Staaten vorzuschlagen hat. Nicht allein das freundschaftliche Verhältnis welches in der letzten Zeit durch den Austausch herzlicher Freundschaftsbezeugungen zwischen den beiden Staatsoberhäuptern noch verstärkt, in Folge des starken Elements deutscher Abkunft im amerikanischen Volke zwischen den beiden Völkern bestanden hat, floss uns die Hoffnung ein, dass wir wenigstens sympathisches Gehör finden würden. Noch mehr brachte uns der Dank, welchen die Gelehrten Amerikas dem Lande schulden, welches eine so hervorragende Stellung auf dem Gebiete der Wissenschaft und Forschung einnimmt, die Gewissheit, dass die deutsche Regierung die Vorschläge mit streng wissenschaftlichem Interesse prüfen werde. Diese sorgfältige Prüfung wird entweder ergeben dass die Vorschläge ausführbar sind oder aber diese werden so abgeändert werden dass sie ausführbar werden.

Im Januar, 1903, unterbreiteten die Regierungen von Mexiko und China der Regierung der Vereinigten Staaten Memoranda bezüglich der für sie bestehenden Notwendigkeit eines neuen Geldsystems, durch welches Parität im Austausch zwischen dem Gelde ihrer Länder und demjenigen der Goldwährungsländer Europas und Amerikas hergestellt wird, und sie ersuchten die Vereinigten Staaten um deren Hülfe bei der Einführung von Währungsreformen. Vom Kongress dazu ermächtigt hat der Präsident der Vereinigten Staaten im Einklange mit diesem Gesuche diese Kommission ernannt, überzeugt dass die Einführung dieser Reformen nicht allein jenen Ländern zum Vorteil gereichen werde, sondern ebenso der übrigen kommerziellen Welt. Die Kaufleute aller Handelsvölker haben in den letzten Jahren bei ihrem Verkehre mit Ländern des Silberfusses schwere Verluste erlitten und ihr Handelsverkehr wurde ferner durch den Umstand sehr

erschwert, dass es unmöglich ist den Preis importierter Waren genau zu berechnen. Die Entwicklung der Silberländer ist aus gleichen Gründen sehr aufgehalten worden, da die Anlage von Kapital, das der Entwertung ausgesetzt ist, mit zu grossen Gefahren verknüpft ist. Um diese Uebelstände zu beseitigen müssen, wie klar auf der Hand liegt, Mittel und Wege gefunden werden, um den Austauschwert zwischen dem Gelde jener Länder und Gold festzustellen.

In dieser Hinsicht haben mehrere der ersten kommerziellen Länder bereits vorbereitende Schritte gethan. Die Regierung der Vereinigten Staaten hat Vorkehrungen getroffen für die Einführung eines neuen Münzsystems auf den Philippinen, das vornehmlich aus Silbermünze bestehen wird; die aber auf gleicher Parität mit Gold gehalten werden soll. Die Einzelheiten des Systems, deren Regelung dem Ermessen der Philippinen-Regierung überlassen worden ist, werden nach Beratung mit Autoritäten auf diesem Gebiete und im Lichte der Erfahrungen anderer Länder ausgearbeitet werden. Die grosse Entwicklung ihrer Landwirtschaft, ihre Fabrikindustrie und des Bergbaus auf Kupfer, Blei und Eisen hat die Republik Mexiko bewogen, auf diese Industrien in erster Linie Rücksicht zu nehmen, statt auf dem Silberbergbau allein, der lange Zeit ihre wichtigste Industrie war. Um ihren Handel und ihre Fabrikindustrie zu heben und die Anlage fremden Kapitals zu ermutigen, hat die mexikanische Regierung aus obigen Gründen die grundlegenden Massregeln ergriffen, um ihr unbeschränktes Silberwährungssystem zu beseitigen und ein neues Geldsystem von Silbermünze die auf paritätischem Fusse mit Gold gehalten werden soll, einzuführen. Die englische Regierung für die Straits Settlements und die Verbündeten Malaischen Staaten und Frankreich für Französisch-Indochina haben die Verbesserung der Silberwährungssysteme dieser Länder unter Erwägung. Es ist anzunehmen, dass sie auf ziemlich der gleichen Linie vorgehen werden.

Das Gesuch Chinas an die Vereinigten Staaten um Unterstützung bei Einführung seines neuen Geldsystems geht zum Teil aus dem Wunsche der chinesischen Regierung hervor, seine Geschäftsinteressen in engere Beziehungen zu denen der westlichen Völker zu bringen, zum Teil aus der Notwendigkeit, seine geschäftlichen Zustände zu heben, um innere Verbesserungen ausführen und seinen Entschädigungsverpflichtungen gegenüber den Vertragsrechten leichter nachkommen zu können. Es ist ganz besonders mit Rücksicht auf die Interessen aller Grossmächte in China, sowohl in Bezug auf die ihnen schuldige Entschädigung wie in Bezug auf ihre grossen ständig wachsenden Handelsinteressen, dass der jetzige Zeitpunkt besonders geeignet erscheint, sie zu ersuchen gemeinsame Schritte zu thun, um China bei der Einführung eines auf Gold basierten Währungssystems zu unterstützen.

Bei Einführung dieser neuen Geldsysteme wird, wie Mexiko und China in ihren Noten an die Vereinigten Staaten erklären und wie die Regierung der Vereinigten Staaten jetzt durch ihre Kommissionen erklärt, kein Versuch gemacht werden, das Geldsystem der Goldwährungsländer zu ändern, noch auch die Discussion eines internationalen Doppelwährungsvertrages von Neuem zu eröffnen; ebenso wenig besteht primär die Absicht den Preis des Silbers zu berühren. Nur in so weit ein fester Preis dieses Metalls zur Herbeiführung der Austauschparität zwischen Silbermünzen und Gold beitragen wird, wird die Kommission diese Frage in Erwägung ziehen. Für diesen Zweck ist, wie leicht ersichtlich, ein fester Preis des Silbers in der Nähe des Prägevalues von grossem Werte. Ein Hochpreis des Silbers würde

von keinem besonderen Vorteil sein. Folglich nähern sich die Vereinigten Staaten und Mexiko dieser Frage nicht als Silberverkäufer. Sie besprechen die Frage als Handelsvölker, die ihren Handelsverkehr zu erweitern und ihre Geschäftsinteressen durch Einführung eines festbestimmten Wertverhältnisses zwischen den Geldern der verschiedenen Länder zu fördern suchen. Zur Erreichung dieses Zieles rechnen sie auf die Sympathie und Hülfe Deutschlands und der übrigen Handelsvölker.

Es wird nicht für zweckmässig erachtet, die Länder zu ersuchen, bindende Abkommen über irgend eine der Fragen, welche die Kommission zur Besprechung unterbreiten wird, zu schliessen, noch hält die Kommission es für nothwendig völlige Gleichheit in den Geldsystemen der Silberländer speciell derer im Osten zu erlangen. Der Zweck kann am besten erreicht werden durch Beratungen unter den interessierten Ländern, durch Austausch der Ansichten und durch die wohlwollende Unterstützung, die zur Vollendung der Pläne die alle in der gleichen Weise interessieren, gewährt werden kann.

Die besonderen Vorschläge um deren Förderung die Regierung der Vereinigten Staaten die Regierungen von Deutschland und den anderen Ländern ersucht, sind die Folgenden:

(1) In China ein nationales Silbermünzsystem, begründet und gehalten auf einem festen Wertverhältnisse zu Gold im ungefähren Verhältnisse von 32: 1, herbeizuführen.

(2) In möglichst vielen der Kolonialbesitzungen der verschiedenen europäischen Mächte und in den übrigen Silberländern ähnliche Geldsysteme wie das für China vorgeschlagene zu sichern und die grösstmögliche Gleichmässigkeit zwischen diesen Systemen zu erlangen.

(3) Als ein Hauptmittel um die Parität der Silbermünzen mit Gold in den oben erwähnten Ländern auf leichte Weise zu erhalten, soll jede Regierung um die grösstmögliche Stabilität des Silberpreises zu sichern gleichmässige Ankäufe des wirklich zu Münzzwecken notwendigen Silbers machen.

Die Regierung der Vereinigten Staaten ist überzeugt, dass zur Ausführung dieser allgemeinen Zwecke der Rat und die Unterstützung der deutschen Regierung von besonderem Werte ist; wegen der ungemein wichtigen Stellung, welche Deutschland durch die Entwicklung seiner Kolonien eingenommen hat und durch die Ausbreitung seines Handels im ganzen Orient, sowie wegen der grossen Interessen, die es gegenüber dem chinesischen Reiche besitzt. Wir hoffen dringend, dass wir, da unsere Vorschläge von grosser Wichtigkeit für Deutschland nicht nur, sondern von allgemeinem Interesse für die Handelswelt sind, mit denjenigen ihrer Sachverständigen in Finanzfragen und politischen- und Handelsverhältnissen im Osten, die Sie gütigst anwenden wollen in Verbindung treten dürfen, damit wir ihnen unsere Pläne unterbreiten und auf diese Weise Ihren Rat und Ihre Hülfe erlangen können, wie Sie es für gut befinden.

[Translation.]

STATEMENT PRESENTED BY THE AMERICAN COMMISSION TO THE  
GOVERNMENT OF THE GERMAN EMPIRE.

[July 15, 1903.]

The German Empire has made so rapid strides during the last decades in the direction of the extension of her manufacturing and commercial interests, and has acquired so great interests in China

and throughout the East that the Government of the United States felt certain of the interest of the Government of Germany in the plans which the Commission on International Exchange has to propose. Moreover, the friendly interest which, though it has been much increased lately by interchange of heartfelt courtesies between the heads of the two Governments, has long existed between the two countries because of the strong element among American citizens of those of German descent, we felt would secure at least a sympathetic hearing. Still further, the debt which the scholars and scientists of America owe to the country which took so leading a part in modern scholarship and research made us the more certain that the German Government would consider the proposals with rigid scientific interest, and by this careful criticism they would be known to be certainly practical or would be so amended as to make them so.

In January, 1903, the Governments of Mexico and China submitted memoranda to the Government of the United States regarding their needs for a new monetary system which should fix a parity of exchange between the moneys of their countries and those of the gold-standard countries of Europe and America; and they asked that the United States give its aid in establishing reforms in their currencies. Acting under the authority of Congress, the President of the United States, in response to this request, appointed this Commission, being certain that such systems, if established, would be of benefit not merely to those countries, but likewise to the rest of the commercial world. The merchants of all commercial nations in their dealings during the past few years with countries on the silver basis have suffered serious losses, and their trade has been greatly hampered on account of the impossibility of reckoning accurately the cost of imported goods. The development of the silver countries themselves has for similar reasons been checked through the great risks of the investment of capital which would be subject to depreciation. To remove these evils it is clearly necessary that some means be employed which shall fix a rate of exchange between the currencies of these countries and gold.

In this direction several leading commercial countries have already taken preparatory steps. The United States Government has made provision for the establishment of a new monetary system in the Philippine Islands, to consist chiefly of silver coins which shall be maintained at a parity with gold. The details of this system, which have been left to the discretion of the Philippine Commission, will be worked out after counsel with the leading authorities on this subject and in the light of the experience of other countries. The great development in the Republic of Mexico of her agricultural and manufacturing industries and the mining of copper, lead, and iron has led the Republic of Mexico to consider primarily these other industries instead of only her silver mining, which was for a long time the business of prime importance within her borders. On this account, in order to improve her commerce and manufactures and encourage the investment of foreign capital, the Government of Mexico has taken the initial steps toward the abandonment of her free silver monetary system and the establishment of a new silver currency to be maintained at a parity with gold. The English Government, in behalf of the Straits Settlements and Federated Malay States, and the French Government, in behalf of French Indo-China, have also under consideration the improvement of the silver monetary systems of those countries. It is to be presumed that they will take action along somewhat similar lines.

The appeal of China to the United States for aid in establishing her new monetary system was due partly to the desire of her Government to bring her business interests more closely into touch with those of western peoples, partly from the necessity of improving her business conditions in order that internal improvements could be made and that her indemnity obligations to the treaty powers might be the more readily met. It is especially in connection with the interests of all of the great powers in China, both on account of the indemnity due them and on account of their great and growing commercial interests, that the time now seemed especially suitable for asking them to take harmonious action in aiding China to establish for herself a monetary system based upon gold.

In planning these new monetary systems Mexico and China stated in their notes to the United States Government and the United States Government through its Commission states that no attempt will be made to change the monetary systems of the gold-standard countries nor to reopen again now for further discussion the question of an international bimetallic agreement. Neither is it a primary intention to affect the price of silver. Only so far as a stable price for that metal will aid in the establishment of a parity of exchange between silver currencies and gold does the Commission consider the question.

For this purpose, as will readily be seen, a stable price of silver near the coinage ratio is of great importance; a high price of silver would be of no especial advantage. In consequence, the United States and Mexico do not approach this question in the attitude of sellers of silver. They discuss it as commercial nations wishing to extend their trade and to develop their business interests by the establishment of an international parity of exchange. In this purpose they count on the sympathy and aid of Germany and of the other commercial nations.

It is not thought best to ask any of the nations to enter into binding agreements regarding any of the questions which the Commission wishes to discuss, nor does the Commission think it essential that absolute uniformity in the monetary systems of the silver-using countries, especially those of the East, be secured. The ends to be accomplished can be furthered best simply by consultation among the nations interested, by a comparison of views, and by such sympathetic assistance as can be given for the accomplishment of those purposes which interest them all in the same way.

The specific purposes which the Government of the United States asks the Government of the German Empire and of other countries to promote are the following:

1. To secure for China a uniform silver currency established and maintained on a fixed parity with gold at a ratio of about 32 to 1.
2. To secure for as many as practicable of the colonial possessions of the different European powers and for other silver-using countries similar to that recommended for China, and to obtain as great uniformity as possible among these currencies.
3. As a potent means of maintaining easily the parity of silver coins with gold in all the countries above indicated, to secure as great stability as possible in the price of silver bullion by means of regularity of purchase by each government of the silver actually needed for coinage purposes.

In carrying out these general objects the Government of the United States has felt that the counsel and assistance of the Government of Germany would be of especial value on account of the very important position which Germany has taken in the development of her colonies, in the expansion of her trade throughout the Orient, and in the great

interest which she possesses in connection with the Empire of China. We trust that, inasmuch as our purpose is of great importance to Germany as well as of general interest to the commercial world, we shall be placed in communication with such of your experts in monetary matters and in political and commercial relations in the East as you may be pleased to appoint in order that we may lay before them our plans and by such means as may seem to you wise secure your counsel and cooperation.

### *1. Währungs-Entwurf für China.*

1. Die Kaiserlich Chinesische Regierung soll unverzüglich zur Einführung einer allgemeinen Währung, hauptsächlich von Silbermünzen mit in Gold festbestimmtem Werte Massregeln ergreifen, welche die Mehrheit der bei der Kriegsentschädigung interessierten Mächte befriedigen.

2. Zur Einrichtung und Verwaltung dieses Systems soll China aufgefordert werden, annehmbare fremde Hilfe heranzuziehen und zu verwerten.

3. Zur Ausführung dieses Entwurfes wird die chinesische Regierung einen, zu einer anderen Nationalität gehörigen Münzkontrolleur ernennen, welcher mit der Generalverwaltung des Systems in China betraut werden soll. Ihm sollen annehmbare Hilfskräfte für die Münzprägung und für jegliche andere Tätigkeit, die er ihnen zuweist, zur Verfügung gestellt werden.

4. Der Kontrolleur wird monatlich einen detaillierten Bericht erstatten über den Zustand des Münzwesens, einschliesslich der im Umlauf befindlichen Beträge, die Anleihen, Wechsel auf das Ausland usw. Die Berichterstattung über die Sachlage wird er zu geeigneter Zeit den dazu Bevollmächtigten der Regierungen, welche auf Kriegsentschädigung ein Anrecht haben, zur Kenntnissnahme und Indemnitätserklärung offen legen. Diese Bevollmächtigten und die oben bezeichneten Hilfskräfte haben das Recht, ihrer Ansicht Ausdruck zu geben und Anträge zu stellen.

5. Die chinesische Regierung wird eine einheitliche Basis des Geldwertes annehmen. Diese dazu dienende Münze soll \* \* \* Grän Gold enthalten und wahrscheinlich nahezu dem Goldwert des Taels gleich oder etwas höher als der mexikanische Dollar sein. Massregeln sollen ergriffen werden, die freie Ausprägung von passenden Münzen nach Belieben zu 5, 10, 20 fachen Werte gegen eine angemessene Prägegebühr zu gestatten. Eventuell können einzelne Münzsorten auf Regierungskosten geprägt werden.

6. China wird so schnell wie möglich 200,000,000 Silbermünzen mit einer zweckmässigen Prägung und ungefähr in der Grösse des mexikanischen Dollars zur Circulation im Inlande ausprägen lassen. Diese sollen zu der goldenen Münze im festen Wertverhältnis von etwa 32 : 1 erhalten werden. Nach Bedarf kann gemäss der folgenden Bestimmungen weiterhin geprägt werden. Auch sind kleinere und Scheidemünzen von angemessenem Gewicht und Wert zulässig.

7. Gold- und Silbermünzen sind bei allen Zahlungen an die Kaiserlich chinesische Regierung in allen Provinzen gleichmässig zu parianzunehmen. Wo es sich um in Silber vereinbarte Zahlungen an die Regierung handelt, sind die neuen Münzen zu vollem Werte (nicht Metallwerte) anzunehmen.

8. Von Zeit zu Zeit wird die Regierung nach ihrem Belieben und in Uebereinstimmung mit den Vizekönigen in den Provinzen ein Dekret ergehen lassen, dass die neuen Münzen gesetzlichen Kurs

haben bei Zahlungen von Schulden, welche nach einem in dem Dekret genannten Datum kontrahiert sind. Frühere Schulden sind zu zahlen, wie vereinbart war.

9. Für die Unkosten der Einführung dieses Währungssystems und für die Aufrechterhaltung des Parikurses der Silbermünzen soll die chinesische Regierung Conti anlegen lassen in London, Paris, Berlin, St. Petersburg, Yokohama und New York, auf welche sie Geldwechsel ziehen kann zu einem bestimmten Diskont, welcher etwas höher sein soll als der gewöhnliche Bankdiscont. Diese Wechsel dürfen nur unter der Aufsicht des Währungskontrolleurs ausgestellt werden, aber sind auf Verlangen derjenigen, welche von den neuen silbernen Münzen eine Summe im Werte von z. B. mindestens 10,000 Taels einzahlen, auszustellen.

10. Sollte es notwendig werden, zur Einführung eines allgemeinen Münzsystems mit einem zum Umwechseln ausreichenden Kassenbestand eine Anleihe aufzunehmen, so soll dieselbe durch Einnahmequellen gesichert werden, die für die erforderlichen Zins- und Amortisationszahlungen ausreichen. Dieselbe muss in einer die dabei interessierten Parteien befriedigenden Weise verwaltet werden.

11. Die Prägegebühr soll als getrenntes Kapital verwahrt werden. Sobald 500,000 Taels angesammelt sind, sollen dieselben als Goldreserven den verschiedenen ausländischen Depositaren überwiesen werden im Verhältnis der auf sie gezogenen Wechsel, bis die Goldreserve zu mindestens einem Werte von 25,000,000 Taels angewachsen ist.

12. Um die durch Wechselbetrieb geschmälerte Goldreserve von neuem auf den alten Stand zu bringen, wird der Kontrolleur die von im Auslande ernannten Finanzagenten im Umtausch für Gold gezogenen Silberwechsel zu einem von ihm zu bestimmenden Diskont honorieren.

13. Massregeln für ein Bankgesetz sollen getroffen werden, nach welchem unter Aufsicht des Kontrolleurs von kreditwürdigen Banken Noten zum Parikurs mit der gesetzlichen Münze ausgegeben werden können.

14. Die neue Währung soll sobald wie es praktisch ausführbar ist, in den verschiedenen Provinzen eingeführt werden. Der Kontrolleur wird zu dem Zweck sich der Lokalbehörden, der Banken, Handelshäuser und anderer besonders dazu geeigneter Vermittler bedienen.

15. Innerhalb von fünf Jahren soll das neue System in all den Vertragshäfen und soviel wie möglich anderweitig eingeführt sein. Nach spätestens fünf Jahren sollen alle Zölle nach der neuen Währung erhoben werden. Die örtlichen Steuern sollen, sobald die neue Währung in den Provinzen eingeführt ist, darin bezahlt werden und es sollen Massregeln getroffen werden, dass die Steuerberechnung dem neuen System angepasst wird.

16. Die neue Währung soll eingeführt werden, wenn 25,000,000 neue Münzen zur Ausgabe fertig sind.

17. Der Kontrolleur und die dazu Bevollmächtigten der Mächte sollen autorisiert werden, der chinesischen Regierung wirtschaftliche Reformen vorzutragen.

[Translation.]

### *1. Suggestions for a monetary system for China.*

1. The Chinese Imperial Government promptly to take effective steps, satisfactory to a majority of the indemnity treaty powers, to establish a general monetary system consisting chiefly of silver coins with a fixed gold value.

2. In the establishment and management of this system, China to be asked to invite and employ acceptable foreign assistance.
3. In pursuance of this plan, the Chinese Government to appoint a foreign controller of the currency, who shall have general charge of the system for China, he to have acceptable associates in charge of the mint or of such work as he may prescribe.
4. The controller to make monthly reports in detail of the condition of the currency, including amounts in circulation, loans, drafts on foreign credits, etc., his accounts to be open at reasonable times to inspection by accredited representatives of the powers interested in the indemnity. Such representatives, as also the associate controllers, to have the right of suggestion and recommendation.
5. The Chinese Government to adopt a standard unit of value. The unit to consist of \* \* \* grains of gold and to be worth presumably approximately the gold value of a tael or somewhat more than a Mexican dollar. Provision to be made for the free coinage of suitable pieces, multiples of this unit, 5, 10, and 20, on demand, for a reasonable coinage charge. Eventually some to be coined on Government account.
6. China to coin as rapidly as possible 200,000,000 silver coins, with an appropriate device, about the size of a Mexican dollar, for circulation in the country. These to be maintained at par with the standard gold unit at a ratio of about 32 to 1. More to be coined thereafter according to needs, as indicated by provisions following. Subsidiary and minor coins of suitable weight and value to be provided.
7. Both the gold and silver coins to be receivable at par in payment of all obligations due to the Chinese Imperial Government in any of the provinces. When such obligations have been made in silver the new coins may be tendered instead of at their coin value.
8. The Government, at its discretion, in conjunction with the vice-roys, from time to time to declare by proclamation in the various provinces the new coins legal tender for debts incurred after a date fixed in the proclamation. Previous debts to be paid as contracted.
9. For the expenses of the inauguration of the system and for the maintenance of the parity of the silver coins, the Chinese Government to open credit accounts in London, Paris, Berlin, St. Petersburg, Yokohama, and New York, against which it may draw gold bills at a fixed rate somewhat above the usual banking rates. Such drafts to be made only under the direction of the Controller of the Currency, but to be made on demand for all depositors of the new silver coins in sums of not less than, say, 10,000 taels.
10. Should it be necessary to make a loan for the establishment of a general monetary system with adequate exchange funds, it to be secured by sources of revenue sufficient to yield an amount which will provide for the needed interest and sinking fund, such revenues to be managed in a way satisfactory to the parties interested.
11. The seigniorage profit from coinage to be kept as a separate fund. Whenever 500,000 taels' worth shall have been accumulated, it to be placed as a gold deposit with the several foreign depositaries in proportion to drafts made upon them. This process to be continued till at least 25,000,000 taels' worth shall be in the gold fund on deposit.
12. For replenishing the gold fund after its reduction by drafts, the Controller to honor silver drafts drawn by the foreign agents of the treasury in exchange for gold, at rates fixed by the Controller.
13. Provision to be made for a banking law under which bank notes kept at par with the legal-tender currency may be issued by responsible banks under the supervision of the Controller.

14. As rapidly as is practicable the new currency to be introduced into the various provinces, the Controller making use of the local governments, banks, business houses, and such other agencies as are best suited to the purpose.

15. Within five years the new system to be introduced into all the treaty ports and as far as possible elsewhere, and all customs duties to be collected in terms of the new currency. Local taxes to be collected in new currency as fast as it is adopted in provinces, and provision also to be made for the keeping of the tax accounts under the new system.

16. The new system to be put into effect when 25,000,000 of the new coins are ready for circulation.

17. The Controller and the representatives of the powers to be authorized to recommend economic reforms to the Imperial Government.

*2. Gründe für die möglichste Annahme einer Wertrelation von ungefähr 32:1 und einer ungefähren Währungseinheit.*

1. Es ist wünschenswert, dass bei Goldwechselwährung für Prägung von silbernen Währungsmünzen eine Wertrelation in einer Höhe, welche ungefähr dem Metallwerte der Silbermünzen gleichkommt und sich dem Münzsysteme der Staaten mit Silberwährung etwa anschliesst, eingeführt wird.

2. Es wäre wünschenswert, dass die Wertrelation etwas über den jetzigen Silberpreis fixiert wird, damit man den möglichen Preisschwankungen der Silberbarren in beiden Richtungen Rechnung trägt.

3. Sinken des Silberwertes würde den Unterschied zwischen dem wirklichen und dem gesetzlichen Wert der Münze unter einer Goldwechselwährung erhöhen und demzufolge schwerer auf dem Kredite der ausprägenden Regierung lasten und die Gefahr der Falschmünzerei vermehren. An und für sich würde das Sinken das System nicht unbedingt zerstören, was durch die Münzzirkulation in den Ländern der lateinischen Münzkonvention und in den Vereinigten Staaten von Nord-Amerika, wo der gesetzliche Wert mehr als zweimal höher ist als der Wert in Barren, gezeigt wird.

Steigen des Silberpreises, auch auf kürzere Zeit, über die Wertrelation hinaus, würde die Gefahr der Einschmelzung und des Münzmangels des betreffenden Staates mit sich bringen.

4. Ausgabe von Silbermünzen auf Grund einer Wertrelation von 32:1 würde, beim gegenwärtigen Silberpreis sich den obigen Bedingungen anpassen, denn es würde ein Spielraum von etwa 15 Procent zwischen dem Wert der Münze in Gold und dem eigenen Metallwerte bleiben.

5. Eine Wertrelation von 32:1 ist dem jetzigen in den Ländern mit Goldwährung bestehenden Verhältnis oder jedem andern, wodurch das Silber auf einen höheren Wert als 32:1 festgestellt wird, vorzuziehen, weil es den Gewinn an privater und verbotener Ausprägung vollwichtiger Silbermünzen verringert. Diese kommt doch in bedeutendem Masse bei der Silbermünze der Länder der lateinischen Münzkonvention, der Vereinigten Staaten von Nord-Amerika und Britisch-Indien vor und würde eine wesentlich grössere Gefahr bilden in den Staaten, wo die Regierung weniger kräftig ist und die Mittel zur Aufdeckung des Betrugs weniger wirkungsvoll sind.

6. Die Wertrelation 32:1 hat den Vorzug, Mexiko, China, den Philip-

pinen, den Straits Settlements, Hongkong und französisch Indo-China die Ausgabe von ähnlichen Silbermünzen wie die, welche jetzt von den dortigen Bewohnern gebraucht werden, zu ermöglichen. Dadurch würde die Einführung eines stabilen Systems, ohne zu tief in die jetzigen Gewohnheiten einzugreifen, erleichtert werden.

7. Das Wertverhältnis von etwa 32:1 hat den Vorteil, im wesentlichen das Weltmarktverhältnis zwischen Gold- und Silberbarren von vor etwa zwei Jahren zu entsprechen. Dieses war damals mehrere Jahre hindurch aufrecht erhalten worden und ihm hatten sich in den Ländern mit Silberwährung die Preis- und Wertbestimmungen in ausgedehntem Masse angepasst.

8. Die Annahme einer Goldwechselwährung auf der Basis eines Wertverhältnisses 32:1 würde daher das Verdienst haben, in den jetzigen Silberwährungsländern nur wenig Verwirrung zu bringen in die richtige Abwicklung von Kontrakten, welche innerhalb der letzten zwei Jahre abgeschlossen sind, und wenn man weiter in Betracht nimmt, dass während des vergangenen Jahres die Preise und die Löhne sich nicht in allen Fällen dem Sinken des Silberpreises sofort angepasst haben, so würde solch ein Geldsystem für die Abwicklung der Kontrakte, welche seit diesem Datum abgeschlossen wurden, kaum etwas ungerechtes haben.

9. Es ist sehr wünschenswert, dass die Staaten, welche im Begriff sind, ihr Münzsystem auf Goldwechselbasis zu reorganisieren, eine Wertrelation in etwa gleicher Höhe annehmen, sodass sie imstande sind, sich gemeinschaftlich gegen Schwankungen der Silberpreise und gegen die Gefahr der Falschmünzerei zu schützen.

Solch eine Gleichförmigkeit würde den Handel zwischen den Staaten, welche eine gemeinschaftliche Wertrelation haben, erleichtern und würde die Wirkung eines solchen Goldwechselwährungssystems und die Methode, wie sie aufrecht erhalten wird, mehr allgemein verständlich machen.

10. Wenn versucht wird, den Silberpreis zu befestigen, indem man den Regierungsankauf von Silber zur Münzprägung regelmässig einrichtet, und um dem Steigen des Silberpreises über eine bestimmte Höhe vorzubeugen, indem man mit dem Ankauf aufhört, wenn diese Höhe erreicht ist, so würde diese Politik viel leichter zu verfolgen sein, wenn alle dabei interessierten Staaten ihre Ankäufe einstellen jedesmal, wenn der Silberpreis die Höhe der allgemeinen Wertrelation erreicht hat. Andererseits würden die Münzen von einem oder mehreren Staaten, welche eine niedrigere Wertrelation haben, eingeschmolzen werden, wenn andere Staaten ihren Ankauf fortsetzten, auch nachdem der Silberpreis diese Wertrelation überschreitet.

11. Es ist wünschenswert, dass die Wertrelation nicht nur annähernd den Weltmarktsverhältnissen entspricht und möglichst allgemein ist, sondern soweit als praktisch durchführbar sei, sollte auch für die ostasiatischen Länder eine gemeinschaftliche Münzeinheit angenommen werden.

12. Die Annahme einer gemeinschaftlichen Münzeinheit für China, die französischen Besitzungen in Asien, Hongkong und weitere englische Besitzungen und für die Philippinen würde den Handel zwischen all diesen Ländern bedeutend erleichtern und würde dem Ausfuhrhandel der Staaten mit Goldwährung zu gute kommen, insoweit ihre Besitzungen als Handelscentren für ihre Nationalprodukte dienen.

Die Annahme einer gemeinschaftlichen Münzeinheit würde also z. B. englischen Export aus den Straits Settlements nach Indo-China

erleichtern, und würde andererseits die französische Ausfuhr sowohl nach Hongkong, den Philippinen, als nach Indo-China und dem chinesischen Kaiserreich erleichtern.

13. Auch wenn eine gemeinschaftliche Münzeinheit nicht allgemein in Ost-Asien angenommen wird, so würde schon die Einführung einer derartigen Einheit in einigen Ländern für diese vorteilhaft sein, und jedenfalls würde ihr Handel mit anderen Ländern in günstigere Lage kommen, als bei Fortbestehen der zahllosen, isoliert stehenden und mit einander kollidierenden Systeme der Jetztzeit.

14. Die Kommission der Vereinigten Staaten hegt nicht die Absicht, eine Münzkonvention vorzuschlagen, welche die Münze eines Landes zum gesetzlichen Zahlungsmittel in einem anderen machen würde. Es scheint wünschenswerter und leichter zu erreichen, wenn es jeder Regierung frei bleibt, ihr Münzsystem den Lokalverhältnissen anzupassen und wenn sie verantwortlich ist, dass ihr eigenes System unverletzt bleibt. Die Fehler oder Schwächen der einen Regierung würden dann nicht nachteilig auf die Münzsysteme der anderen Staaten einwirken können. Die Kommission der Vereinigten Staaten meint, dass die ungefähre Gleichförmigkeit der Wertrelation und in der Münzeinheit nicht die Gefahr in sich schliessen würde, die einzelnen Münzsysteme vollständig aneinander zu ketten, sondern dass sie wesentlich alle Vorteile eines gemeinschaftlichen Systemes bieten würde, indem sie die Abrechnungen, die Zusammenstellung von Preislisten und Fakturen, die Zahlung der Zölle erleichtert. Dann würden sich sicherer und leichter die Gewinnberechnungen der Handelsgeschäfte überblicken lassen und würden also der Handel und die Kapitalanlagen der Staaten mit Silberwährung und der Staaten mit Goldwährung gegenseitig gefördert werden.

*2. Reasons for the adoption, where practicable, of a uniform coinage ratio of about 32 to 1, and of a like monetary unit.*

1. It is desirable that the rate for the coinage of standard silver coins under a gold-exchange system should be fixed at a point which conforms approximately to the value of the silver coins and to the coinage system already established in countries having a silver currency.

2. It is desirable that a ratio for the coinage of silver should be fixed somewhat above the present bullion value of the metal, in order to allow for possible fluctuations in its bullion price in the upward as well as downward direction.

3. Fluctuations downward in the value of silver would increase the difference between the bullion value of the silver coins and their face value under a gold-exchange standard, thereby imposing a heavier burden upon the credit of the issuing government and increasing the danger of counterfeiting; but such fluctuations would not in themselves necessarily defeat the system, as is shown by the circulation of the coins of the countries of the Latin Union and of the United States at a face value more than double their bullion value. Fluctuations upward in the price of silver bullion, on the other hand, if they carried the price above the coinage ratio even for a short time, would involve serious risk of driving the coins to the melting pot and denuding the country of its currency.

4. The issue of coins upon a gold exchange basis at the ratio of 32 to 1 would meet these conditions at the present price of silver, because it would afford a margin of about 15 per cent between the gold exchange

value of the coin and the bullion value of the metal which it would contain.

5. A ratio of 32 to 1 is preferable to the existing ratio of the gold-standard countries or to any ratio giving a higher value to silver than 32 to 1, because it diminishes the profit in private and fraudulent coinage of coins of full weight, which is being carried on to a considerable extent in the case of the silver currencies of the countries of the Latin Union, the United States, and British India, and which would be a still greater menace in countries where the central authority is less strong and the means of detecting fraud are less efficient.

6. A ratio of 32 to 1 would have the merit of permitting the issue of silver coins by Mexico, China, the Philippines, the Straits Settlements, Hongkong, and French Indo-China, conforming closely to those now in general use among their people, thereby facilitating the introduction of a stable system without serious disturbance to existing customs.

7. The ratio of about 32 to 1 has the advantage of representing substantially the commercial ratio between gold and silver bullion of about two years ago, which had then been maintained for several years, and to which prices and values in the silver countries had to a considerable extent become adjusted.

8. The adoption of a gold exchange standard, therefore, upon the ratio of 32 to 1 in countries now on a silver basis, would have the merit of interfering little with the equitable settlement of contracts made up to two years ago, and in view of the fact that prices and wages have not in all cases responded at once to the fall in silver during the past year, such a standard would do but little injustice in the settlement of contracts made since that date.

9. It is very desirable that the countries which are reorganizing their monetary systems upon a gold exchange basis should adopt a ratio for coinage approximately uniform, in order to enable them to cooperate in guarding against fluctuations in the price of silver and the danger of counterfeiting. Such uniformity will facilitate trade between countries having such a common ratio and make the mechanism of the gold exchange standard and the methods by which it is maintained better understood.

10. If it is attempted to steady the price of silver bullion by giving regularity to government purchases of silver for coinage purposes and to prevent the rise of silver beyond a fixed point by suspending purchases when this point is reached, this policy would be much more easily carried out if all countries concerned were to stop buying whenever the price of silver reached the level of their common coinage ratio. On the other hand, one or more countries using a lower ratio would find their coins melted down if other countries continued to buy after the price of silver had advanced beyond their ratio.

11. It is desirable not only that there should be a ratio conforming somewhat to market conditions and that this ratio should be uniform, but that as far as practicable a common unit should be adopted for the currency of oriental countries.

12. The adoption of a common unit for China, for the French possessions in Asia, for Hongkong and other English dependencies, and for the Philippines would greatly facilitate trade between all these countries and would facilitate the export trade of the gold countries so far as their dependencies acted as distributing centers for their home production. The adoption of a common unit would thus, for example, facilitate English exports from the Straits to Indo-China, and would,

on the other hand, facilitate French exports to Hongkong and the Philippines as well as to Indo-China and the Chinese Empire.

13. Even if the adoption of a common unit were not universal throughout the Orient, the adoption of such a unit by even a few countries would be advantageous to them, while in no case would they be at any greater disadvantage in their trade with other countries than by the continuance of independent and conflicting systems among all.

14. It is not proposed by the Commission of the United States that there shall be a monetary union which would make the coins of one country legal tender in another country. It seems to be preferable and more easily attainable that each government should be free to adapt its monetary system to local requirements and that it should be responsible for the integrity of its own system, in order that default or weakness on the part of one government should not react injuriously upon the monetary systems of other countries. It is the belief of the Commission of the United States that approximate uniformity in ratio and unit would not involve the risks of linking one monetary system absolutely to another, but would afford substantially all the benefits of a common system in facilitating accounts, preparing price lists and invoices, meeting customs charges, making certain and easily ascertainable the gross and net proceeds of commercial transactions, and thereby promoting trade and investment for the mutual benefit of the silver-using countries and the gold-standard countries.

### 3. *Betrachtungen über den Silberpreis.*

1. *Die Notwendigkeit der Preisstabilität.*—Es ist Hauptaufgabe der Internationalen Währungskommission, soweit als möglich ein festes Wechselverhältnis auf Goldbasis zwischen den Gold- und Silberwährungsländern herzustellen. Ein Goldwechselwährungssystem wird in Ländern mit Silber als Zahlungsmittel viel leichter eingeführt und aufrecht erhalten werden, wenn die Silberpreise gehörig stabil bleiben. Die Höhe des Silberpreises ist von geringerer Bedeutung als seine Ständigkeit.

2. *Augenblickliche Sachlage.*—(a) Der Silbermarkt scheint zuviel durch Stimmungen beeinflusst zu werden. So scheint z. B. der letzte grosse Fall des Silberpreises in der Hauptsache verursacht zu sein durch die Furcht, dass die Nachfrage für Silber sich sehr wesentlich verringern würde infolge einer möglichen Annahme der Goldwährung für die Straits Settlements, die Philippinen, französisch Indo-China, Siam und Mexico. In Wirklichkeit hat die Nachfrage tatsächlich wenig nachgelassen und der grosse Preisfall scheint allein verursacht zu sein durch die Furcht vor möglicher Einschränkung der Nachfrage.

(b) Unter den jetzigen Umständen, wobei jeder Staat selbständig und sehr unregelmässig Silber ankauft, ist nicht vorher zu sehen, wie gross die Nachfrage sein wird. Vor etwa 3 Jahren kaufte Indien innerhalb sehr kurzer Zeit etwa 60 Millionen Unzen. Seitdem waren ihre Ankäufe fast null. Wenn die Nachfrage etwas geregelt werden könnte, würde dies der Festigkeit des Preises sehr zu gute kommen.

(c) Das Silberangebot ist ziemlich gut bekannt.

(1) Der Totalbetrag verschiedener früheren Jahre war ungefähr 170 Millionen Unzen, während die Preise zwischen  $30\frac{1}{4}$  Pence pro Unze im Jahre 1900 und  $21\frac{5}{8}$  Pence pro Unze im Jahre 1902 schwankten.

(2) Der Silberhandel ist für einen bedeutenden Teil in der Hand einiger grossen Häuser. Es scheint, dass der Londoner Markt die Weltpreise feststellt. Auf dem Londoner Markte werden jährlich regelmässig ungefähr 100,000,000 Unzen verkauft. In den Vereinigten Staaten haben grosse Organisationen von Silberhütten jährlich von 70,000,000 bis 75,000,000 Unzen zu ihrer Verfügung. Mexico kann jährlich etwa 25,000,000 bis 30,000,000 Unzen verkaufen.

(3) *Mögliche Wirkungen.*—(a) Es wäre also bei ziemlich regelmässiger Silbernachfrage diesen wenigen Verkäufern möglich, einen festen Preis zu halten. Es wäre in ihrem eigenen Interesse, diesen gleichmässigen Preis zu erhalten, auch wenn er nicht hoch wäre.

(b) Eine beträchtliche Steigerung des Silberpreises durch die Verkäufer würde unmöglich, wenn die Hauptkäufer, die Regierungen, zwar ihren voraussichtlichen jährlichen Bedarf angäben, aber mit dem Ankauf aufhörten, wenn der Preis ein von ihnen bestimmtes Maximum, z. B. 28 Pence erreicht.

(c) Wenn der Silberpreis dem gesetzlichen Münzwerte fast gleich käme, würde die Gefahr der Falschmünzerei beträchtlich geschmälert sein.

4. *Vorschläge.*—Es handelt sich zwar um eine rein wirtschaftliche Frage, mit der die Regierung der V. S. von Staatswegen nichts zu tun hat, aber es ist klar, dass, caeteris paribus, die erforderliche Stätigkeit der Silberpreise wesentlich gefördert würde, wenn jedes Land seinen wahrscheinlichen Silberbedarf für eine Periode von 3 bis 5 Jahren im Voraus mitteilen und sich bereit erklären würde, diesen Bedarf durch regelmässige monatliche Käufe zu decken.

Mit der Erklärung der voraussichtlichen Höhe der Silberkäufe könnte sehr wohl die Bedingung verbunden werden, dass die Käufe zu sistieren sind, wenn zu einiger Zeit der Silberpreis einmal über 28 Pence per Unze beträgt.

[Translation.]

### 3. *Considerations regarding the price of silver.*

1. *Need for stability.*—The chief interest of the Commission on International Exchange is to secure, as far as possible, stability of exchange rates on a gold basis between the gold and silver using countries. A gold-exchange system in silver-using countries can be brought about and maintained much more easily provided the price of silver bullion remains reasonably steady. Whether silver bullion is high or low as compared with gold is of less consequence than that its price remain steady.

2. *Present conditions.*—(a) The silver market seems to be affected unduly by sentiment. For example, the last great fall in the price of silver seems to have been brought about largely by the fear that since the Straits Settlements, the Philippine Islands, French Indo-China, Siam, and Mexico might all adopt a gold standard the demand for silver would be very greatly lessened. The actual demand had not lessened materially, and the great fall seems to have been brought about simply by fear of future shrinkage of demand.

(b) Under present circumstances, with each nation buying independently and very irregularly, the demand can not be foreseen. Some three years ago India bought within a short time some 60,000,000 ounces. Since that time its purchases have been practically nothing. If the demand could be made somewhat regular it would aid in giving stability to price.

(c) The silver supply is fairly well known.

(1) The total amount for several years in the past has averaged about 170,000,000 ounces, and that with the price of silver varying between 30½d. per ounce in 1900 and 21½d. per ounce in 1902.

(2) The selling of silver is to a considerable extent in the hands of a few establishments. The London market apparently fixes the price for the world. There are sold regularly on the London market annually about 100,000,000 ounces. Great organizations of smelters and refiners in the United States have at their disposition from 70,000,000 to 75,000,000 ounces a year. There can be sold by Mexico from 25,000,000 to 30,000,000 ounces a year.

3. *Possible effects.*—(a) In consequence, if the demand for silver were reasonably regular it would be possible for these few sellers to maintain a steady price. It would be for their interest to keep the price steady even though the price were not high.

(b) It would be impossible for them to put the price very high, provided the governments, which are the chief purchasers, though indicating their probable annual needs, were to stop their buying when the price reached a certain fixed maximum, say 28d.

(c) If the price of silver were to approach closely the coining value, the danger of counterfeiting would be greatly lessened.

4. *Suggestions.*—While the matter is entirely a commercial proposition with which the United States Government as such has nothing to do, it is evident that if each nation were to indicate its probable needs for a period of say from three to five years in advance, and were to express its readiness to supply these needs steadily by monthly purchases, other things equal, that policy would tend greatly to secure the needed stability in price.

With this indication of probable purchases might well be coupled the understanding that if at any time the price went above 28d. per ounce such purchases would cease.

## VII.—PAPERS PRESENTED TO THE RUSSIAN COMMISSION.

[July 29, 1903.]

### STATEMENT PRESENTED BY THE AMERICAN COMMISSION TO THE GOVERNMENT OF THE RUSSIAN EMPIRE.

The American Commission on International Exchange wishes to present to the Government of the Russian Empire a statement regarding the purposes of its visit to Russia, feeling certain that the proposals to be made will be received in a friendly spirit, both because of the industrial and financial benefits which Russia would receive from the success of the policy which is advocated and because of her leadership in the past in many measures of economic and social progress.

In January, 1903, the Governments of Mexico and China submitted notes to the Government of the United States asking its assistance in establishing for the silver-using countries new monetary systems which should fix a parity of exchange between their moneys and those of the gold-standard countries of Europe and America. The President of the United States, in response to this request, laid the matter before Congress, and later, by its authority, appointed this Commission. It was thought that if such systems could be established, not

merely would the silver countries themselves be benefited, but the gold countries would receive an almost equal benefit through the extension of their trade that would naturally come if the serious losses which have heretofore been suffered in dealing with countries on a silver basis could be avoided. The gold countries would profit also by the added security which would be given to their investments in the silver countries. When there is so great an accumulation of capital as has been found in the monetary centers of Europe and the United States during recent years this new opening for safe investments might prove to be an advantage almost, if not quite, as great as that which would come from the extension of trade.

The time for the establishment of such a monetary system for China and for Mexico seems particularly suitable, inasmuch as several of the silver-using countries have already taken preparatory steps in a similar direction. The United States Government last winter passed a law for the establishment of a new currency system in the Philippine Islands, which should consist chiefly of silver coins to be maintained at a parity with gold. The Republic of Mexico also, in order that it may still further increase the great development of its agricultural and manufacturing industries, has decided to adopt a new currency system of a similar nature. Although silver mining has been her chief industry and is still one of the most important, the Government of Mexico believes that special encouragement should now be given to industries of other kinds, even though there should be some slight loss in its silver mining. The English Government, in behalf of the Straits Settlements and Federated Malay States, and the French Government, in behalf of French Indo-China, have also under consideration the improvement of the silver monetary systems of those countries. Presumably they will take action along similar lines.

The Government of China has felt that it was for the advantage of that country to bring its business interests more closely into touch with those of western peoples. The improvement of business conditions resulting therefrom would render it much easier to make internal improvements, and the resulting increase in revenues would facilitate the payment of the indemnity obligations of the Chinese Government to the treaty powers. It is thus to be seen that several of the great powers are already working in the direction suggested, and inasmuch as their interests in China are practically common this seems to be a particularly fit time for all of the powers to join in the support of China in its effort to establish a new monetary system based upon gold.

In their notes to the United States Government the Governments of Mexico and of China both stated that no attempt would be made to change the monetary systems of the gold-standard countries, and they do not intend to reopen again for further discussion the question of an international bimetallic agreement. The United States Government has joined in this declaration. It should also be stated that none of these countries desire primarily to affect the price of silver. It is, however, recognized that the establishment of a parity of exchange between silver currencies and gold would be aided if the price of silver bullion could be steadied at a point somewhere near the coinage ratio. A high price of silver would be detrimental, as would a very low price. A steady price would be beneficial. In the discussion of this question, therefore, the United States and Mexico do not take the position of sellers of silver. They are, rather, commercial nations wishing to extend their trade and to develop their internal business and interests by the establishment of an international

parity of exchange and by the establishment in Mexico of a sound monetary system. In the furtherance of these ends they count upon the cordial support of Russia, which has already made a wise reform of her own monetary system and whose industries have in late years attained so remarkable a development.

The specific purposes which the Government of the United States asks the Government of the Russian Empire and other governments to promote are the following:

1. To secure for China a uniform silver currency, established and maintained on a fixed parity with gold at a ratio of about 32 to 1.

2. To secure for as many as practicable of the colonial possessions of the different European powers, and for other silver-using countries, currencies similar to that recommended for China, and to obtain as great uniformity as possible among these currencies.

3. As a potent means of maintaining easily the parity of silver coins with gold in all the countries above indicated, to secure as great stability as possible in the price of silver bullion by means of regularity of purchase by each government of the silver actually needed for coinage purposes.

In furthering these general objects the Government of the United States has felt that Russia, on account of her own experience in changing her monetary system, as well as on account of her great industrial development of late years and the importance of her interests in the Far East, could render special service.

We trust that inasmuch as our purpose is not only of great importance to Russia as well as of general interest to the commercial world, we shall be permitted to lay before your Government our plans and purposes, and we hope that we may secure for them, in whatever way seems to you wise, your hearty cooperation and support.

### *1. Projet d'un Système monétaire pour la Chine.*

1°. Le gouvernement impérial chinois prendrait sans retard des mesures satisfaisantes pour la majorité des Puissances intéressées dans l'indemnité pour établir un système monétaire d'ensemble consistant, en majeure partie, de pièces d'argent d'une valeur fixe en or.

2°. Pour l'établissement et l'administration de ce système, la Chine serait invitée à solliciter et à employer des concours étrangers compétents.

3°. Pour mettre ce plan à exécution, le gouvernement Chinois nommerait un contrôleur de la monnaie, de nationalité étrangère, qui serait chargé de l'administration du système pour la Chine. Il aurait des collaborateurs pour s'occuper de la frappe de la monnaie ou de tout autre travail qu'il aurait à prescrire.

4°. Le contrôleur ferait des rapports mensuels, indiquant en détail la condition de la monnaie, la quantité en circulation, les prêts, les traites sur les crédits étrangers, etc.

Les comptes devraient à intervalles raisonnables être ouverts à l'inspection de représentants accrédités par les Puissances qui ont droit à l'indemnité. Ces représentants aussi bien que les collaborateurs du contrôleur auraient le droit de présenter des suggestions et des avis.

5°. Le gouvernement chinois adopterait une unité monétaire étalon composée de grains d'or et valant approximativement un taël en or ou un peu plus d'un dollar mexicain. Des mesures seraient prises pour la frappe libre de pièces appropriées, multiples de cet éta-

lon, 5, 10, 20, sur demande et moyennant un prix raisonnable. A l'occasion, quelques pièces pourraient être frappées pour le compte du gouvernement.

6°. La Chine devrait frapper aussi rapidement que possible, 200,000,000 de pièces, avec un dessin convenable, à peu près de la dimension d'un dollar mexicain, pour la circulation dans le pays. Celles-ci devraient être maintenues au pair avec la monnaie d'or dans le rapport de 32 à 1 environ. D'autres devraient être frappées plus tard, au fur et à mesure des besoins, ainsi qu'il est indiqué dans les paragraphes qui suivent. Il faudrait établir aussi des pièces subsidiaires et divisionnaires convenables.

7°. Les pièces d'or et d'argent devraient être, les unes et les autres, reçues au pair, en paiement pour toutes les sommes dues au gouvernement chinois dans n'importe quelle province. Quand les dettes encourues l'ont été en argent, les nouvelles pièces pourraient être offertes à la place, avec leur valeur légale.

8°. Le gouvernement pourrait, de temps en temps, à sa volonté et de concert avec les vice-rois, déclarer par proclamations dans les différentes provinces, que les nouvelles monnaies ont cours légal pour le paiement des dettes encourues après une date fixée dans la proclamation. Les dettes antérieures seraient payées comme cela avait été entendu.

9°. Pour les dépenses causées par l'installation du système et pour le maintien de la parité des monnaies d'argent, le gouvernement chinois devrait ouvrir des comptes créditeurs à Londres, Paris, Berlin, Saint-Pétersbourg, Yokohama et New-York, sur lesquels il pourra tirer des traites d'or à un taux fixe, quelque peu supérieur au taux habituel des banques. Ces traites devraient être faites seulement sous la direction du contrôleur de la monnaie, mais elles devraient être faites sur demande pour tous les dépositaires de pièces de la nouvelle monnaie qui aurait déposé des sommes au moins égales à dix mille taëls, par exemple.

10°. S'il était nécessaire de faire un emprunt pour l'établissement d'un système monétaire général avec une réserve suffisante pour le change, cet emprunt devrait être garanti par des sources de revenu suffisantes pour faire face à la fois à l'intérêt et à l'amortissement, ces revenus devant être administrés d'une manière satisfaisante pour les parties intéressées.

11°. Les profits du seigneurage provenant de la frappe devraient être conservés comme un fonds séparé. Dès qu'on aurait accumulé la valeur de 500,000 taëls, ils devraient être placés comme fonds de réserve d'or chez les différents dépositaires étrangers, dans la proportion des traites tirées sur eux. Ce système devrait être continué jusqu'à ce qu'une somme de la valeur de 25,000,000 taëls se trouvât en dépôt dans la réserve d'or.

12°. Pour alimenter de nouveau le fonds de réserve d'or après qu'il aurait été réduit par des traites, le contrôleur ferait honneur aux traites d'argent tirées par les agents étrangers du trésor, en échange de l'or, à des taux fixés par le contrôleur.

13°. Des dispositions seraient prises pour passer une loi sur les banques, aux termes de laquelle des billets de banque maintenues au pair avec la monnaie légale, pourraient être émis par des banques de crédit solide, sous la surveillance du contrôleur.

14°. La nouvelle monnaie serait introduite aussi rapidement que cela serait praticable, dans les diverses provinces, le contrôleur ayant recours aux gouvernements locaux, aux banques, aux maisons de

commerce et à tels autres intermédiaires qui seraient le mieux qualifiés pour cet objet.

15°. Dans l'espace de cinq années le nouveau système serait introduit dans tous les ports à traités, et, autant que possible, ailleurs. Tous les droits de douane seraient perçus dans la nouvelle monnaie, après une durée qui ne devra pas excéder cinq années. Les taxes locales seraient perçues dans la nouvelle monnaie aussitôt qu'elle aura été adoptée dans les provinces, et des dispositions devraient être prises pour que la comptabilité des impôts fût tenue d'après le nouveau système.

16°. Les Puissances seraient invitées à accepter de l'argent en paiement pour leur indemnité, pendant dix années. Après cela on payerait en or ou en son équivalent. Si c'était nécessaire, on tiendrait compte de la perte éprouvée par suite de l'acceptation de l'argent, et la différence, fixée au moment de chaque paiement, serait plus tard réglée par versements partiels.

17°. Le nouveau système serait mis en opération quand 25,000,000 pièces de la nouvelle monnaie seraient prêtes pour la circulation.

18°. Le contrôleur et les représentants des Puissances devraient être autorisés à recommander des réformes économiques au Gouvernement Impérial.

[Translation.]

### *1. Suggestions for a monetary system for China.*

1. The Chinese Imperial Government promptly to take effective steps, satisfactory to a majority of the indemnity treaty powers, to establish a general monetary system consisting chiefly of silver coins with a fixed gold value.

2. In the establishment and management of this system, China to be asked to invite and employ acceptable foreign assistance.

3. In pursuance of this plan, the Chinese Government to appoint a foreign controller of the currency, who shall have general charge of the system for China. He to have acceptable associates in charge of the mint or of such work as he may prescribe.

4. The controller to make monthly reports in detail of the condition of the currency, including amounts in circulation, loans, drafts on foreign credits, etc. His accounts to be open at reasonable times to inspection by accredited representatives of the powers interested in the indemnity. Such representatives, as also the associate controllers, to have the right of suggestion and recommendation.

5. The Chinese Government to adopt a standard unit of value. The unit to consist of \* \* \* grains of gold, and to be worth presumably approximately the gold value of a tael or somewhat more than a Mexican dollar. Provision to be made for the free coinage of suitable pieces multiples of this unit, 5, 10, and 20, on demand, for a reasonable coinage charge. Eventually some to be coined on Government account.

6. China to coin as rapidly as possible 200,000,000 silver coins, with an appropriate device, about the size of a Mexican dollar, for circulation in the country. These to be maintained at par with the standard gold unit at a ratio of about 32 to 1. More to be coined thereafter according to needs, as indicated by provisions following. Subsidiary and minor coins of suitable weight and value to be provided.

7. Both the gold and silver coins to be receivable at par in payment of all obligations due to the Chinese Imperial Government in any of

the provinces. When such obligations have been made in silver, the new coins may be tendered instead at their coin value.

8. The Government at its discretion, in conjunction with the viceroy, from time to time to declare by proclamation in the various provinces the new coins legal tender for debts incurred after a date fixed in the proclamation. Previous debts to be paid as contracted.

9. For the expenses of the inauguration of the system and for the maintenance of the parity of the silver coins, the Chinese Government to open credit accounts in London, Paris, Berlin, St. Petersburg, Yokohama, and New York, against which it may draw gold bills at a fixed rate somewhat above the usual banking rates. Such drafts to be made only under the direction of the controller of the currency, but to be made on demand for all depositors of the new silver coins in sums of not less than, say, 10,000 taels.

10. Should it be necessary to make a loan for the establishment of a general monetary system with adequate exchange funds, it to be secured by sources of revenue sufficient to yield an amount which will provide for the needed interest and sinking fund, such revenues to be managed in a way satisfactory to the parties interested.

11. The seigniorage profit from coinage to be kept as a separate fund. Whenever 500,000 taels worth shall have been accumulated, it to be placed as a gold deposit with the several foreign depositaries in proportion to drafts made upon them. This process to be continued till 25,000,000 taels worth shall be in the gold fund on deposit.

12. For replenishing the gold fund after its reduction by drafts, the Controller to honor silver drafts drawn by the foreign agents of the treasury in exchange for gold at rates fixed by the Controller.

13. Provision to be made for a banking law under which bank notes kept at par with the legal-tender currency may be issued by responsible banks under the supervision of the Controller.

14. As rapidly as is practicable the new currency to be introduced into the various provinces, the controller making use of the local governments, banks, business houses, and such other agencies as are best suited to the purpose.

15. Within five years the new system to be introduced into all the treaty ports and as far as possible elsewhere. Not later than five years all customs duties to be collected in terms of the new currency. Local taxes to be collected in new currency as fast as it is adopted in provinces, and provisions also to be made for the keeping of the tax accounts under the new system.

16. The powers to be asked to accept silver in payment of their indemnity for ten years; thereafter gold or its equivalent to be paid. If necessary, account being kept of the loss from the acceptance of silver, the balance to be adjusted at the time of each payment and to be paid later in installments.

17. The new system to be put into effect when 25,000,000 of the new coins are ready for circulation.

18. The Controller and the representatives of the powers to be authorized to recommend economic reforms to the Imperial Government.

2. *Raisons pour l'adoption, partout où cela est possible, d'un rapport légal uniforme de 32 à 1 environ, et d'une unité monétaire à peu près commune.*

1°. Il serait avantageux que le rapport pour la frappe de monnaie d'argent, d'après un système de change fondé sur l'or, fût fixé à un taux qui se rapprochât sensiblement de la valeur de la monnaie

d'argent en lingot et qui fût conforme au système monétaire déjà établi dans les pays à circulation d'argent.

2°. Il serait avantageux que le rapport légal pour la frappe de l'argent fût fixé un peu au-dessus de la valeur actuelle du lingot, afin de pouvoir tenir compte des fluctuations possibles du prix du lingot dans les deux sens.

3°. La baisse dans la valeur de l'argent accentuerait la différence entre la valeur réelle de la monnaie et sa valeur légale dans le système du change d'or, pesant ainsi plus lourdement sur le crédit du gouvernement monnayeur et augmentant le danger de la contrefaçon. Mais cette baisse, en elle-même, ne compromettrait pas nécessairement le système, comme on le voit pour la circulation de la monnaie des pays de l'Union latine et des Etats-Unis, à une valeur légale plus que double de sa valeur en lingot. Si, d'autre part, la hausse dans le prix du lingot d'argent élevait le prix au-dessus du rapport légal de la frappe, même pour un temps très court, elle risquerait de provoquer une poussée de monnaie vers les ateliers de fonte et de priver le pays de sa monnaie.

4°. L'émission d'une monnaie reposant sur un système de change fondé sur l'or, dans le rapport légal de 32 à 1, satisferait à ces conditions au prix actuel de l'argent, parcequ'elle laisserait une marge d'environ quinze pour cent entre la valeur de la monnaie en or et la valeur en lingot du métal qu'elle contiendrait.

5°. Le rapport légal de 32 à 1 est préférable au rapport actuel des pays à étalon d'or ou à tout autre rapport donnant à l'argent une valeur supérieure à 32 à 1, parcequ'il diminue le profit qui pourrait être tiré de la frappe privée et frauduleuse de monnaies de poids légal, qui se pratique dans une mesure considérable dans le cas des monnaies d'argent des pays de l'Union latine, des Etats-Unis et de l'Inde anglaise, et qui constituerait une plus grande menace dans les pays où le pouvoir central est moins fort et les moyens de découvrir la fraude moins efficaces.

6°. Un rapport de 32 à 1 aurait l'avantage de permettre l'émission par le Mexique, la Chine, les Philippines, les Straits Settlements, Hong-Kong et les Colonies françaises de l'Inde, de monnaies d'argent sensiblement pareilles à celles maintenant employées par leurs habitants, facilitant de la sorte l'introduction d'un système stable sans troubler trop profondément les habitudes actuelles.

7°. Le rapport de 32 à 1 a l'avantage de représenter à peu près le rapport commercial entre le lingot d'or et d'argent qui existait il y a deux ans et qui avait été maintenu pendant plusieurs années, et auquel les prix et les valeurs des pays à étalon d'argent s'étaient adaptés dans une large mesure.

8°. C'est pourquoi l'adoption d'un étalon de change d'or dans le rapport de 32 à 1 pour les pays qui font usage de l'étalon d'argent, aurait le mérite de ne pas jeter trop de trouble dans le règlement équitable des contrats passés il y a deux ans, et comme, d'autre part, les prix et les salaires n'ont pas partout suivi la baisse de l'argent durant l'année passée, un pareil étalon ne causerait pas de préjudice sérieux dans le règlement des contrats passés depuis cette époque.

9°. Il est très désirable que les pays qui sont en train de réorganiser leurs systèmes monétaires sur la base d'un système de change d'or, adoptassent un rapport de frappe à peu près uniforme, de façon à leur permettre de se concerter pour la protection contre les fluctuations des prix de l'argent et contre le danger du faux-monnayage. Une uniformité de ce genre faciliterait le commerce entre pays ayant

adopté un pareil rapport et ferait mieux comprendre le mécanisme de l'étalon de change d'or et les méthodes par lesquelles il est maintenu.

10°. Si un effort est tenté pour régulariser le prix du lingot d'argent en régularisant les achats d'argent, faits par le Gouvernement pour le monnayage, et si l'on essaye d'empêcher la hausse de l'argent au dessus d'un point donné, en suspendant les achats quand ce point est atteint, cette méthode pourrait être facilement suivie si tous les pays intéressés cessaient leurs achats chaque fois que le prix de l'argent atteignait le chiffre de leur rapport commun de monnayage.

D'autre part, un ou plusieurs des pays qui font usage d'un rapport inférieur verraient fondre leur monnaie si d'autres pays continuaient à acheter après que le prix de l'argent se serait élevé au-dessus de leur rapport.

11°. Il serait avantageux que non seulement il y eût un rapport qui fût à peu près conforme aux conditions du marché et que ce rapport fût uniforme, mais, autant que cela est faisable, qu'une unité commune fût adoptée pour la monnaie des pays Orientaux.

12°. L'adoption d'une unité commune pour la Chine, pour les colonies françaises de l'Inde, pour Hong-Kong et d'autres dépendances anglaises et pour les Philippines, faciliterait grandement le commerce entre tous ces pays et faciliterait le commerce d'exportation des pays à étalon d'or dans la mesure où leurs dépendances serviraient de centres de distribution pour leur production nationale. Ainsi l'adoption d'une unité commune faciliterait, par exemple, les exportations anglaises des Straits Settlements en Indo-Chine et, d'autre part, faciliterait les exportations françaises à Hong-Kong et aux Philippines, comme en Indo-Chine et dans l'Empire Chinois.

13°. Même si l'adoption d'une unité commune n'était pas universelle en Extrême-Orient, l'adoption d'une unité pareille par quelques pays seulement leur serait avantageuse, et, en tout cas, il ne saurait y avoir de système plus préjudiciable pour eux que la continuation de la multiplicité des systèmes contradictoires qui existent en ce moment.

14°. La Commission des Etats-Unis n'a pas l'intention d'établir une union monétaire qui rendrait la monnaie d'un pays monnaie légale dans un autre pays. Il semble préférable et d'une solution plus aisée que chaque gouvernement soit libre d'adapter son système monétaire aux nécessités locales et qu'il soit responsable de l'intégralité de son système de sorte que la faiblesse ou les erreurs d'un gouvernement ne puissent pas réagir défavorablement sur le système monétaire des autres pays. La Commission des Etats-Unis croit que l'uniformité approximative dans le rapport légal et dans l'unité n'enchaîne pas absolument les systèmes les uns aux autres, mais présenterait, somme toute, l'avantage d'un système commun pour faciliter la comptabilité, préparer les listes de prix et les factures, payer les frais de douane, évaluer, d'une manière certaine, les profits des transactions commerciales et servir, ainsi, au progrès du commerce pour le bénéfice commun des pays à étalon d'argent et des pays à étalon d'or.

[Translation.]

2. *Reasons for the adoption, where practicable, of a uniform coinage ratio of about 32 to 1, and of a like monetary unit.*

1. It is desirable that the rate for the coinage of standard silver coins under a gold exchange system should be fixed at a point which conforms approximately to the value of silver coins and to the coinage system already established in countries having a silver currency.

2. It is desirable that a ratio for the coinage of silver should be fixed somewhat above the present bullion value of the metal, in order to allow for possible fluctuations in its bullion price in the upward as well as downward direction.

3. Fluctuations downward in the value of silver would increase the difference between the bullion value of the silver coins and their face value under a gold exchange standard, thereby imposing a heavier burden upon the credit of the issuing government and increasing the danger of counterfeiting, but such fluctuations would not in themselves necessarily defeat the system, as is shown by the circulation of the coins of the countries of the Latin Union and of the United States at a face value more than double their bullion value. Fluctuations upward in the price of silver bullion, on the other hand, if they carried the price above the coinage ratio even for a short time, would involve serious risk of driving the coins to the melting pot and denuding the country of its currency.

4. The issue of coins upon a gold exchange basis at the ratio of 32 to 1 would meet these conditions at the present price of silver, because it would afford a margin of about 15 per cent between the gold exchange value of the coin and the bullion value of the metal which it would contain.

5. A ratio of 32 to 1 is preferable to the existing ratio of the gold-standard countries or to any ratio giving a higher value to silver than 32 to 1, because it diminishes the profit in private and fraudulent coinage of coins of full weight, which is being carried on to a considerable extent in the case of the silver currencies of the countries of the Latin Union, the United States, and British India, and which would be a still greater menace in countries where the central authority is less strong and the means of detecting fraud are less efficient.

6. A ratio of 32 to 1 would have the merit of permitting the issue of silver coins by Mexico, China, the Philippines, the Straits Settlements, Hongkong, and the French possessions in India, conforming closely to those now in general use among their people, thereby facilitating the introduction of a stable system without serious disturbance to existing customs.

7. The ratio of about 32 to 1 has the advantage of representing substantially the commercial ratio between gold and silver bullion of about two years ago, which had then been maintained for several years, and to which prices and values in the silver countries had to a considerable extent become adjusted.

8. The adoption of a gold exchange standard, therefore, upon the ratio of 32 to 1 in countries now on a silver basis would have the merit of interfering little with the equitable settlement of contracts made up to two years ago, and in view of the fact that prices and wages have not in all cases responded at once to the fall in silver during the past year, such a standard would do but little injustice in the settlement of contracts made since that date.

9. It is very desirable that the countries which are reorganizing their monetary systems upon a gold exchange basis should adopt a ratio for coinage approximately uniform, in order to enable them to cooperate in guarding against fluctuations in the price of silver and the danger of counterfeiting. Such uniformity will facilitate trade between countries having such a common ratio and make the mechanism of

the gold exchange standard and the methods by which it is maintained better understood.

10. If it is attempted to steady the price of silver bullion by giving regularity to government purchases of silver for coinage purposes and to prevent the rise of silver beyond a fixed point by suspending purchases when this point is reached, this policy would be much more easily carried out if all countries concerned were to stop buying whenever the price of silver reached the level of their common coinage ratio. On the other hand, one or more countries using a lower ratio would find their coins melted down if other countries continued to buy after the price of silver had advanced beyond their ratio.

11. It is desirable not only that there should be a ratio conforming somewhat to market conditions and that this ratio should be uniform, but that as far as practicable a common unit should be adopted for the currency of oriental countries.

12. The adoption of a common unit for China, for the French possessions in India, for Hongkong and other English dependencies, and for the Philippines would greatly facilitate trade between all these countries and would facilitate the export trade of the gold countries so far as their dependencies acted as distributing centers for their home production. The adoption of a common unit would thus, for example, facilitate English exports from the Straits to Indo-China and would, on the other hand, facilitate French exports to Hongkong and the Philippines, as well as to Indo-China and the Chinese Empire.

13. Even if the adoption of a common unit were not universal throughout the Orient, the adoption of such a unit by even a few countries would be advantageous to them, while in no case would they be at any greater disadvantage in their trade with other countries than by the continuance of independent and conflicting systems among all.

14. It is not proposed by the Commission of the United States that there shall be a monetary union which would make the coins of one country legal tender in another country. It seems to be preferable and more easily attainable that each government should be free to adapt its monetary system to local requirements and that it should be responsible for the integrity of its own system, in order that default or weakness on the part of one government should not react injuriously upon the monetary system of other countries. It is the belief of the Commission of the United States that approximate uniformity in ratio and unit would not involve the risks of linking one monetary system absolutely to another, but would afford substantially all the benefits of a common system in facilitating accounts, preparing price lists and invoices, meeting customs charges, making certain and easily ascertainable the gross and net proceeds of commercial transactions, and thereby promoting trade and investment for the mutual benefit of the silver-using countries and the gold-standard countries.

### *3. Considérations sur le prix de l'argent.*

1. *Le besoin de stabilité.*—L'objet principal de la Commission du Change International est d'obtenir, autant que cela est possible, la stabilité des taux du change, sur la base de l'étalon d'or, entre les pays à étalon d'or et les pays à étalon d'argent. Le système du change d'or dans les pays à étalon d'argent peut être établi et maintenu beaucoup plus facilement pourvu que les prix du lingot d'argent soient raisonnablement stables. Les variations du lingot d'argent par rap-

port à l'or sont beaucoup moins importantes que ne l'est la stabilité de son prix.

2. *Conditions présentes.*—(a) Le marché de l'argent semble être enclin à se laisser trop influencer par des considérations de sentiment. Par exemple, la première grande baisse du prix de l'argent semble avoir été causée surtout par la crainte que la demande de l'argent ne soit diminuée à la suite de l'adoption possible de l'étalon d'or par les Straits Settlements, les Iles Philippines, l'Indo-Chine française, le Siam et le Mexique. En réalité la demande n'a pas diminué sensiblement et la grande baisse semble avoir été amenée uniquement par la crainte d'une limitation possible de la demande.

(b) Dans les conditions présentes où chaque nation fait ses achats d'une manière indépendante et très irrégulièrement on ne peut pas prévoir quelle sera la demande. Il y a trois ans l'Inde acheta, dans un espace de temps très court, 60 millions d'onces. Depuis lors ses achats ont été presque nuls. Si la demande pouvait être un peu régularisée cela aiderait à donner de la stabilité au prix.

(c) La quantité d'argent sur le marché est assez bien connue.

(1) Le montant total de la production d'argent pendant plusieurs années a été, en moyenne, de 170 millions d'onces environ et cela avec des variations de prix allant de 30 pence  $\frac{1}{4}$  par once en 1900 à 21 pence  $\frac{5}{16}$  par once en 1902.

(2) La vente de l'argent est, dans une large mesure, entre les mains de quelques établissements. Le marché de Londres fixe, semble-t-il, les prix pour le monde entier. On vend régulièrement sur le marché de Londres à peu près 100,000,000 d'onces per an. De grandes organisations de fondeurs et d'affineurs d'argent des Etats-Unis ont à leur disposition de 70,000,000 à 75,000,000 d'onces par an. Le Mexique peut vendre de 25,000,000 à 30,000,000 d'onces annuellement.

3. *Effets possibles.*—(a) En conséquence, si la demande d'argent était assez régulière il serait possible à ces quelques vendeurs de maintenir un prix stable. Il serait de leur intérêt de maintenir ce prix stable même s'il n'était pas élevé.

(b) Il leur serait impossible de hausser le prix d'une façon très marquée, pourvu que les Gouvernements, qui sont les principaux acheteurs, tout en indiquant à l'avance leurs besoins probables par année, arrêtent leurs achats quand le prix atteindrait un maximum donné, 28 pence, par exemple.

(c) Si le prix du lingot d'argent approchait de la valeur légale de la monnaie, le danger de la contrefaçon serait grandement diminué.

4. *Suggestions.*—Quoique cette question soit une question entièrement commerciale et que, comme telle, elle n'intéresse pas directement le Gouvernement des Etats-Unis il est évident, cependant, que si chaque nation indiquait par avance ses besoins probables pour une période d'environ trois à cinq années et manifestait sa disposition à satisfaire régulièrement ses besoins par des achats mensuels, cette méthode tendrait, toutes choses égales d'ailleurs, à assurer, dans une large mesure, la stabilité désirée des prix.

En même temps que les Gouvernements indiqueraient leurs achats probables il serait bon de s'entendre pour que, si, à un moment quelconque, le prix s'élevait au-dessus de 28 pence par once, ils cessassent les achats.

[Translation.]

3. *Considerations regarding the price of silver.*

1. *Need for stability.*—The chief interest of the Commission on international exchange is to secure as far as possible stability of exchange rates on a gold basis between the gold and silver-using countries. A gold exchange system in silver-using countries can be brought about and maintained much more easily provided the price of silver bullion remains reasonably steady. Whether silver bullion is high or low as compared with gold is of less consequence than that its price remain steady.

2. *Present conditions.*—(a) The silver market seems to be affected unduly by sentiment. For example, the last great fall in the price of silver seems to have been brought about largely by the fear that since the Straits Settlements, the Philippine Islands, French Indo-China, Siam, and Mexico might all adopt a gold standard, the demand for silver would be very greatly lessened. The actual demand had not lessened materially, and the great fall seems to have been brought about simply by fear of future shrinkage of demand.

(b) Under present circumstances, with each nation buying independently and very irregularly, the demand can not be foreseen. Some three years ago India bought within a short time some 60,000,000 ounces. Since that time its purchases have been practically nothing. If the demand could be made somewhat regular it would aid in giving stability to price.

(c) The silver supply is fairly well known.

(1) The total amount for several years in the past has averaged about 170,000,000 ounces, and that with the price of silver varying between 30½d. per ounce in 1900 and 21⅝d. per ounce in 1902.

(2) The selling of silver is to a considerable extent in the hands of a few establishments. The London market apparently fixes the price for the world. There are sold regularly on the London market annually about 100,000,000 ounces. Great organizations of smelters and refiners in the United States have at their disposition from 70,000,000 to 75,000,000 ounces a year. There can be sold by Mexico from 25,000,000 to 30,000,000 ounces a year.

3. *Possible effects.*—(a) In consequence, if the demand for silver were reasonably regular, it would be possible for these few sellers to maintain a steady price. It would be for their interest to keep the price steady even though the price were not high.

(b) It would be impossible for them to put the price very high, provided the Governments, which are the chief purchasers, though indicating their probable annual needs, were to stop their buying when the price reached a certain fixed maximum, say 28d.

(c) If the price of silver were to approach closely the coining value the danger of counterfeiting would be greatly lessened.

4. *Suggestions.*—While the matter is entirely a commercial proposition with which the United States Government as such has nothing to do, it is evident that if each nation were to indicate its probable needs for a period of, say, from three to five years in advance, and were to express its readiness to supply these needs steadily by monthly purchases, other things equal, that policy would tend greatly to secure the needed stability in price.

With this indication of probable purchases might well be coupled the understanding that if at any time the price went above 28d. per ounce such purchases would cease.

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VIII.—INSTRUCTIONS TO PROFESSOR JENKS IN REGARD TO MISSION TO CHINA.

DEPARTMENT OF STATE,  
*Washington, October 24, 1903.*

JEREMIAH W. JENKS, Esq., *etc.*, *Tokyo.*

SIR: The Commission on International Exchange has completed the work in Europe undertaken under the letter of instructions of April 21, 1903.

The counsel and in general the approval and cooperation of several of the leading powers of Europe have been secured for the establishment in China of a uniform national coinage which shall have a fixed relation to gold, as was contemplated in the memorandum of the Imperial Chinese Government, submitted to the Government of the United States January 22, 1903. It remains to present to the Government of China in detail the results obtained thus far and to offer to that Government such suggestions and assistance as may be possible to further the actual establishment of a new monetary system on the lines laid down in the memorandum above referred to.

Having been selected for this work by the Commission on International Exchange, with the approval of the President, you are, therefore, instructed to proceed to China to carry out this purpose of bringing about the establishment in China of a gold-exchange monetary system; that is, a system in which the coins shall be from the beginning and maintained at a parity with gold. You will first visit Japan and endeavor to secure the counsel and cooperation of that State. You will thereafter (after a visit to the Philippine Islands if the government of those islands should wish temporarily your services there) visit China. As occasion shall demand you are authorized to present the subject of your mission to the Imperial Government, to viceroys of provinces and other officials, and to explain the subject to bankers and business men, both Chinese and foreign, and to others who may be of assistance to the Chinese Government in carrying out its plan of monetary reform, and to secure as far as possible their cooperation. Should the special cooperation of other governments beyond the assistance already secured seem advisable, you are authorized to present the matter to the representatives of those governments and to endeavor to enlist their cooperation.

If some temporary relief in the payment of the indemnity due the powers would prove of real assistance to China in obtaining the means for carrying out this monetary reform, you are authorized to endeavor to secure such relief as may be possible, particularly the assistance temporarily by the powers of payment in silver with the reservation, if necessary, of later payments in full. You are also authorized for the purpose of this reform to urge the acceptance by other powers of an increase in the rates of import duties levied by China, as provided in the treaty signed by the representatives of China and the United

States October 8, 1903; the clause of which treaty is interpreted by the Government of the United States, in connection with the memorandum of the Chinese Government of January 22, 1903, to contemplate the establishment of a national gold-exchange system, and you are authorized further to take up with the Chinese authorities and others the question of other changes in the tax system of China or of further revision of the duties, so far as such changes will, in your judgment, contribute to enable China to carry out her reform of the establishment of a gold-exchange monetary system through the aid of a new loan, the establishment of a national bank, or otherwise.

You will keep the Government advised of the progress of your work and present a full report at its conclusion.

I am, sir, your obedient servant,

JOHN HAY.

## APPENDIX B.

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### ARGUMENTS SUBMITTED BY THE COMMISSION OF THE UNITED STATES TO THE FOREIGN COMMISSIONS.

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#### 1.—THE ECONOMIC BENEFITS OF STABLE EXCHANGE.

The controlling motive of the United States in acting with Mexico and China in seeking stability of exchange between gold and silver is the beneficial results to the export trade and investment opportunities which would come under such conditions to the gold countries and the increased economic development which would come also to the silver countries. If China was placed on a stable monetary basis, it would open the country to the importation of American and European manufactures to an extent that is not possible while she is on a fluctuating standard. The advantages of such a policy are so great for the exporting and manufacturing nations like France, the United States, England, and Germany that it is worth very material sacrifices, if they are required, on the part of those nations to secure this great result. The proposals of the United States in this regard have this advantage, that they involve common benefits for all and no discrimination against any nation nor undue advantage for any.

The import trade into China has been very seriously hampered by the recent fall in the value of silver. It is not the fall of silver, however, which is the important thing for the merchant, but its constant changes in gold value. The question which affects the Chinese importer or the European acting as an importer in China is not so much what may be the price of silver at any given time, but whether that price shall be fixed. With readjustments once made, the importer would not be seriously affected if silver were down to the ratio of 40 to 1. What almost absolutely stifles trade, what hampers every merchant, what prevents his looking ahead, what restricts him from importing in advance, what prevents him from calculating on the market is the constant fluctuation in exchange. If silver falls, he is sure to lose. If silver rises, he may make a temporary profit, but another merchant who has imported in anticipation of the rise makes a profit over the man who has been more conservative, while, on the other hand, the rise of silver necessarily hampers the exporter by reducing the gold return for products exported.

The condition of trade in China is now very unfavorable. Before leaving the United States the American Commissioners conferred with the Chinese minister at Washington, who told them that importations into China were brought almost to a standstill by reason of the fluctuations in exchange consequent upon the fall in the price

of silver. A certain amount of trade will of course go on under the most adverse conditions, but under present circumstances importers will buy as little as possible and will not file large orders with European producers in anticipation of demand.

Equally paralyzing is the present condition to the safe employment of capital in the silver-standard countries. Mr. Creel, the distinguished chairman of the Commission of our neighboring Republic of Mexico, could tell you that several hundred million dollars of American and European capital is awaiting investment in Mexico as soon as that country gets on a gold basis. Mexican bankers could borrow money in Paris, Berlin, or Brussels in large amounts and make 7, 8, or 10 per cent on the investment, but they dare not do it, because if it was loaned on short time and they were called on to repay it the fluctuations in silver might more than wipe out all their profit. To end these conditions and to increase the revenue of those who live on their savings, to benefit the laborer in providing for his old age, and to make more profitable the business of the great financiers, steps should be at once taken to put China on a stable basis.

The great desire for a plan such as has been proposed by the American Commissioners was evidenced by the promptness with which China responded to Mexico's appeal for the cooperation of the United States in securing the aid of the European powers to stabilize exchange. The end sought is so important to the trade of the exporting nations that we feel that some beginning should be made and that when once made a long step will have been taken toward the ultimate end of placing China on a stable gold basis. If the fluctuations of exchange which now paralyze trade can be brought to an end, the importer into China can estimate with reasonable precision the price for which he can sell in the local currency and the price for which he can buy in gold in Europe and America.

That a country greatly increases its importations of merchandise when it adopts a stable monetary system has been demonstrated many times in the economic history of the world. We beg to present the figures of the exports and imports into Russia and the same for Japan for the years 1890 and 1900. In the case of Russia the imports were 416,000,000 rubles in 1890. Ten years later, in 1900, they had risen to 626,000,000 rubles—an increase of 50 per cent in ten years. In the case of Japan the figures are even more striking. In 1890 the imports into Japan were valued at 81,000,000 yen. In 1900 they were valued at 300,000,000 yen, an increase of 260 per cent if the value of the yen were assumed to be uniform. The value of the yen was somewhat higher in 1890 than in 1900, but even with that allowance there was an enormous increase in the value of the imports into Japan.

The present volume of imports into China from all other countries is in the neighborhood of \$200,000,000 in American currency. If, by the adoption of a stable exchange standard, China could increase her trade as rapidly as Japan, it would increase in ten years by about \$400,000,000. The import trade of China would rise from \$200,000,000 to \$600,000,000, and participation in that great commerce would be the reward to the European nations, to Mexico, and to the United States for lending their support to China in adopting a stable currency.

It may be asked whether the consuming power of China would be sufficient to cause an increase in her foreign trade in so great a proportion in so short a time; but if Japan, with her masses of people with low wages and her small stock of capital for investment, has

been able to make that increase, it is not clear that China can not make a corresponding increase. What justifies the belief, however, that such an increase might occur, or, at least, would be not unreasonable within so short a time, is the fact that it would not depend entirely upon the consuming power of the Chinese people. It would result from the great inflow of foreign capital seeking investments in the mines and untouched natural resources of China and the equipment of her people with the means of modern production.

In what manner such investments are made is familiar to every student of political economy. They are not made chiefly by the transfer of money in the form of metal, but by the transfer of commodities. The rich countries surrender their products to the poor countries and accept promises to pay instead of exacting full payment from the poor countries in their products. These transactions are carried on in a manner convenient to all through the medium of the negotiable securities of joint-stock companies. The exporter in the rich country who desires ready-money for his goods gets it from the domestic or foreign joint-stock company operating in the poor country. The latter company sells its shares and bonds in the exporting country and applies the proceeds in money to payment for what it buys in machinery, raw materials, and the means for maintaining laborers. Thus, in effect, the rich country lends its capital in the form of products to the poor country, exacting only an annual interest and not the principal in return. The great resources of the manufacturing capitalistic nations are thus put at the command of the undeveloped countries, where they are capable of yielding the largest returns and the greatest sum of benefits to all concerned in the transaction.

Serious obstacles exist as to the introduction of foreign capital into a country which has an unstable monetary standard. Let those obstacles be removed and confidence in the country would be created and foreign capital would pour into China for the development of her great natural resources. The bankers and financiers of Europe, with the immense accumulated savings under their control and with the equipment of those countries for production for domestic needs nearly complete, know well how great is the fund of capital seeking investment throughout the world. Up to the opening of the colonies of the European countries a few years ago, and up to the date of certain recent industrial changes, this accumulation of capital seeking investment and failing to find it at a profitable rate was one of the most serious economic problems of our time. In some respects the finding of outlets for this capital is more important than increasing the annual exports of the manufacturing countries.

The great difficulty in Europe from 1890 down to 1897 was to find profitable and safe investments. This was demonstrated by the great rise in the market price of securities between 1894 and 1897 above par, so that the return on safe investments was materially reduced. Within twenty years, from 1877 to 1897, it could probably be correctly stated that the power of money to earn dividends was reduced one-half, or in nearly that proportion. That reduction of the earning power of capital affected injuriously everybody who depended upon investments for a living. It affected also the profits and enterprises of the captains of industry and the kings of finance. In England and in France the price of Government securities rose to a point which made it no longer possible for the man of small means to invest in them and acquire an adequate support during his declining years.

If these conditions have changed since 1897 and if the rate for the

use of capital has risen, it has been precisely because openings have been found in Indo-China, in the Philippines, in the Congo, and in Russia for the development of these new countries by the capital of the old. For the man of small means who tries to accumulate enough to afford a little annuity for his old age, as well as for the great financier who seeks profitable openings for the investment of the great sums at his command, the problem comes directly home whether new opportunities shall be found for the investment of capital which will permit reasonable returns upon a sound basis. That the adoption of a stable monetary system in itself does much to invite the investment of capital was a subject of discussion in the report submitted by one of the members of this Commission on the Philippines, from which the following extract is taken:

"The Empire of Russia adopted the gold standard in 1896, under the advice of the finance minister, M. de Witte, with the avowed object of attracting foreign capital into Russia. The result was a remarkable verification of the foresight of the minister of finance. The issues of shares in joint-stock companies in Russia, which had been 1,296,214,000 rubles during the entire period from 1799 up to 1895, when the measures for adopting the gold standard were set in operation, or an average of about 13,500,000 rubles per year, increased to 232,040,000 rubles in 1896, 239,324,000 rubles in 1897, 256,237,000 rubles in 1898, 423,585,000 rubles in 1899, and about 300,000,000 in 1900, making in this short period total issues of more than 1,450,000,000 rubles (\$730,000,000).

"The same policy influenced the Government of Japan in the adoption of the gold standard in 1897, and the results were equally striking. The capital invested in stock companies in Japan rose from 268,635,810 yen (about \$134,000,000) at the close of 1895 to 878,154,396 yen (about \$438,000,000) at the close of 1899. The conditions in British India lead to the attempt to give a fixed value to the silver rupee as early as 1893. There, also, one of the chief motives was the introduction of capital from Great Britain and abroad, and the same motive influenced the more resolute steps recently taken by the Indian government to create a gold reserve and make the value of the rupee unchangeable in its relation to gold."

Now, these great investments of capital by the old manufacturing and exporting nations are not made in metal. They are made in the exports of raw material and manufactured goods. In the case of China and all the undeveloped countries, they will be made largely in railway material, rolling stock, rails, and in the machinery for maintaining and repairing that railway equipment. They will be made also in cotton machinery and in the many other kinds of machinery used in placing any new country upon a modern industrial basis.

With the introduction of that railway equipment, with the extension of railways throughout China, new markets will be opened both for the sale of European goods to new customers and for the investment of capital. A great advantage will come to China by bringing to European markets the products of her far interior. The railways will enable her agricultural products to be brought to the seaboard to be shipped to Europe and to meet the demands for food which is so pressing in many of the western countries. In times gone by in China it has not been possible to relieve starvation in one province from the abundance of its neighbors, because the means of transportation were inadequate for carrying to starving millions the quantity required for their continued support.

These points are presented, with the full knowledge that their theory is well understood, to show that the exporting nations could afford to make some concessions in order to secure for their commerce these great benefits.

In order to secure these benefits, this market for exports, and this opportunity for investment you must have a fixed gold standard in China. A uniform currency in China which continued to be upon the fluctuating basis of silver would not bring these benefits, because foreign exchange would continue to fluctuate with the rise and fall of silver. In order to secure stable conditions and invite investment, the monetary system of China must be firmly fixed upon a gold basis.

## II.—SUGGESTIONS FOR A MONETARY SYSTEM FOR CHINA.

The question of a monetary system for the Empire of China is distinctly a practical one. While the establishment of a monetary system in a country so peculiarly situated as regards its business and governmental organization and of a civilization so distinct from that of the Western world would be one of great interest to all students of monetary science, nevertheless, the question as treated by the American Commission is one which has to do with governmental action and with the action of business men in the near future, and in consequence is to be considered chiefly from the point of view of practice. Under these circumstances it is advisable at once to realize as clearly as possible the difficulties which stand in the way of the establishment of any satisfactory monetary system in that Empire. The chief difficulties may perhaps be enumerated as follows:

1. At the present time China has no national monetary system. Indeed, it would not be too much to say that she has no monetary system at all. In several of the treaty ports silver coins circulate largely: In Hongkong, the British dollar; in Shanghai and Tientsin, the Mexican dollar; in certain parts of Manchuria, the Russian ruble; in Canton and Hankow, dollars coined by the mints of the respective viceroys, and other coins are also used in different places.

In many of these ports, even, as generally in the interior, instead of coins, silver shoes—sycees—or other forms of silver bars are used which pass in accordance with their weight and fineness. In the country districts in the interior even silver is comparatively seldom employed by the natives, the copper cash being practically the sole medium of exchange. Even the so-called silver unit of the tael has no general validity. In Shanghai a tael means one weight of silver, in Tientsin another, in Peking, another, a popular book on coinage enumerating fourteen different taels of different weights, and the tael thus varies in quality, and in consequence in value, in the different parts of China. Indeed, so far as some of these taels are concerned, the Shanghai tael for example, even the exact meaning of that one unit in that one place is not clearly understood. Under these circumstances, of course, the question of a national monetary system for the Chinese Empire involves not merely the learning of the value of some new coin on the part of the people, as would be the case in any of the European countries, but it involves also in many places the problem of having the people become accustomed to the use of coins which may be counted, instead of silver, which must be weighed. Moreover, the Chinese people are proverbially conservative and indisposed to change from the customs of their fathers.

Experience both in China and elsewhere, however, shows that a peo-

ple soon learns a new money system, if it is for their advantage. Moreover, China has in one way a decided advantage in having no established uniform system. Her Government is under no obligation to redeem the old coins, except those issued by the provincial governments.

2. The Central Government of China has not been accustomed to enter into the details of administration of local government in the different parts of China. Those details have been intrusted to the viceroys and other local officials. For the establishment of a national monetary system in any country it is ordinarily understood that the central government must be strong and able to exercise its authority directly over individuals throughout the country. It will be recalled that when the United States was first organized under the confederation the Government practically broke down because among other things the Central Government could act upon individuals only through the separate States. One of the most essential improvements in the new Constitution was the grant of authority to the Central Government to deal directly in certain necessary matters, including coinage, with individual citizens, without the intervention of local authorities. The fact that the Central Government in China has not been accustomed to deal thus directly in many matters will make it necessary for the success of the new system to extend somewhat its practice in this respect, and also to secure the cooperation of the viceroys and of other local authorities in order to make the system effective with as little friction as possible.

It has also been suggested that a general monetary system, especially if it were founded on a gold basis, would be contrary to the personal interests of many of the local officials and of the individual Chinese bankers; that, in consequence, it would meet their opposition and would, therefore, be likely to fail. It has been the custom for the local officials in receiving the taxes and other obligations due the Government to make profits, at times large, from the exchange of the local silver, copper, or other material employed in payment into the form in which payments were made to the higher authorities. If a monetary system became general and the taxes were levied directly in terms of the new coin, this profit from shroffage, from exchange, etc., might possibly be largely taken away. The local bankers also have made large profits often from themselves acting as exchange agents in making payment between individuals and between the individuals and the Government.

Some persons have been of the opinion that opposition would be made to a new system even by the European bankers, because their business has for a long time been largely an exchange business and a very large percentage of their profits have come from their profits in exchange. If the monetary system of China were placed on a gold basis these profits naturally would be very much lessened.

The way in which the new system will benefit both these classes is explained later.

3. The Government of China is under so great financial obligations to the great powers on account of its foreign debt and the indemnity due the powers that any monetary plan to succeed ought to have the good will and moral support of all the great powers, or at any rate it must be one which will not interfere in any adverse way with the settlement of the obligations which are due to the different powers. It is on this account, of course, that it has been thought desirable by China and those assisting her in the attempt to inaugurate a new

monetary system to secure beforehand the sympathy and moral support of the chief powers interested in the indemnity. Such sympathetic consideration has already been secured by the visit of the Commission on International Exchange to Europe.

4. Inasmuch as stability of exchange in the settlement of payments in the foreign trade is a matter of prime importance in connection with the proposed monetary system, being, in fact, the point on which the chief emphasis was laid by the Chinese Government in its memorandum addressed to the United States Government, January 22, 1903, the plan and the method of administration in order to be successful must be one which will commend itself to foreign business men who are engaged in trade with China.

The Chinese indemnity, in accordance with the interpretation given to the proposal by several of the powers, is payable in gold and is payable through the medium of a committee of business men and bankers. Foreigners who have money to invest are deterred from such investment in China by the danger of loss coming from the fluctuations in the rates of exchange. Persons who have goods to sell in China, not knowing what their return will be when sales are made in terms of the silver unit in China on account of the fluctuations in the value of that unit, may at times meet with losses, when on the day of the sale the terms agreed upon would secure a profit. Otherwise they must pay bankers liberal commissions for forward rates of exchange. In consequence, naturally the business men hesitate about exporting to China. Between 1882 and 1902 it has been estimated in a letter by Mr. C. J. Dudgeon to the China Association, that silver declined in value as compared with gold 49.7 per cent, as compared with copper cash 26.6 per cent. As compared with gold copper cash has fallen 32.5 per cent.

Under these circumstances any plan which is to be successful must be not merely good in itself, but if it is to overcome these evils must be one which will have the confidence of foreign business men. The plan here proposed is in accordance with the views of the majority of the ablest bankers and business men consulted.

5. The American Commissioners, in presenting a plan for a monetary system for China, represent China, inasmuch as they were appointed for this purpose on the invitation of the Chinese Government. The plan which they present is the one which they believe to be the best for China itself, the one that will probably help China most in both her internal and her external trade, in the settlement of her foreign indemnity, obligations, and in other regards. The plan must, of course, be one that will in no way be detrimental to the sovereign rights of China. It should be one that will as rapidly as possible fit into the customs of the people. Inasmuch as the Chinese are not accustomed to a general monetary system, it has been felt that the way to accomplish this purpose most easily is to formulate a plan which will appeal directly to the motive of self-interest of the individual. As compared with other oriental peoples—for example, the inhabitants of India or of Java—the Chinese are noteworthy for their thrift and their quick intelligence in everything that touches their self-interest. They are notoriously shrewd in matters of bargain and ready to take advantage of any opportunity for even a slight profit. In consequence it is thought that any plan which provides a money that will in retail trade, in the settlement of obligations, in the payment of taxes due the Government, and otherwise either relieve the individual from the liability of losses which he has suffered heretofore or will give him an oppor-

tunity for making a gain, however small, will be one that will attract the Chinese people and in this way may be said to fit into the habits and customs of the inhabitants, even of those who are uneducated and untrained in business methods.

As has been said, one must not underestimate the difficulties which stand in the way of the introduction of any new system; but, on the other hand, in spite of these difficulties and adverse conditions, it is thought that it is worth while, both for China and for the people who are doing business in China and with China, that at least a beginning be made toward the introduction of a rational national monetary system. Within the last two or three years many suggestions have been made in this direction. The Chinese Government has issued a decree commanding its board of finance to organize and put into effect such a system. It has instructed its delegate to the Osaka exhibition in Japan to make a study of the Japanese monetary system with reference to obtaining information which might aid the Government in formulating its own plan. The Tientsin and Shanghai chambers of commerce have adopted resolutions looking toward the establishment of a new system. The Hongkong Chamber of Commerce has likewise acted in a somewhat similar direction. Sir Robert Hart has outlined a plan which has been submitted to the Chinese Government. The Chinese Government in its commercial treaties with England and with the United States has agreed to establish a national monetary system. With so much agitation in that direction and with so evident readiness on the part of the Chinese Government to act, it is practically certain that some attempt will be made in that direction. It is in consequence extremely desirable that when a beginning be made it be made in the right direction. It is not to be expected that all the difficulties enumerated can be overcome in a short time, nor that a national system which shall be generally employed throughout China can be put into full effect within a short space of time. If a beginning is made in the right direction, there will be nothing to retrace, and the system can be put into effect along right lines with the practical certainty that eventually the end desired will be attained.

#### THE INTRODUCTION OF THE NEW SYSTEM.

It has been thought by some of the persons who have discussed with the American Commission their monetary plans that on account of the fact that the Chinese people are not accustomed to a monetary system it would be wiser to begin by introducing a general monetary silver unit, in order that the people might thus become accustomed to the use of a coin of a recognized weight and fineness and that the establishment of this coin upon a parity with gold be made a matter for later action after this first step had been taken. It has been the opinion, on the other hand, of the American Commission, and it may be said also of the majority of those with whom this question has been officially discussed, that it would be a wiser plan, because an easier plan, in starting the new system to start at once with the new coins on a gold basis and that from the beginning they be maintained at a parity with gold.

There are various reasons for beginning on the gold parity:

1. The benefit of the system will be more evident from the beginning. While a national silver currency not on a parity with gold would be of great benefit to the internal trade of the country, the foreign trade would be helped directly in no way by such a system; only

indirect benefits such as would come from the encouragement of internal trade would come to the foreign trade. On the other hand, it is extremely desirable that foreign trade be encouraged as soon as possible, because through the foreign trade will perhaps come one of the chief benefits to China in enabling her to pay off more easily her foreign debts.

It can not properly be urged that the chief or even the first benefit of the new system would go to the foreigners, though of course they also will be benefited. The Chinese, as the producers of the goods to be exported and as the consumers of the imports, will gain most. The fluctuations in exchange have checked the foreign demand for Chinese goods. With the increase in that demand prices will naturally rise, and a new source of wealth for the Chinese will thus be opened. Again, as the risks of a fluctuating exchange have led exporters to pay the lowest possible prices for goods to export, these same risks have led importers to ask the highest possible prices for their imports. The removal of the risk would lead to an increase in the number of importers, to greater competition, and, in consequence, to lower prices for imports. Though the money may largely pass first through the hands of the foreign trader, the chief and first real benefit will come to the Chinese producer and consumer.

If for a time the new system were only in the treaty ports and not yet in the interior, of course there would be a greater rate of exchange between interior and port than now exists for goods not to be exported. As so great a part of the shipments to the ports, however, are for foreign trade, so that the gold rate must not be considered, the real fluctuations in the rate in actual business would probably be less than now. At any rate, the difficulty would be merely temporary and would be overcome as soon as the system could be extended into the interior and is slight compared with the great benefit to follow when the system is complete.

2. The establishment of the system on a gold basis would encourage also from the beginning the investment of foreign capital in China, and this again will be a source of profit to the Chinese people and the Chinese Government, which will enable them to meet their obligations.

The benefit of a new factory or a new railway or other business undertaking is very great to the country. In America it is usual for the people to give not merely land free for such an enterprise, but they often give freedom from taxes for a period of years, and at times a large bonus in cash. The new investment gives employment at higher wages to more workmen, encourages building of houses, makes a greater demand for food supplies and goods of all kinds, and tends thus to make the whole people more prosperous.

3. The beginning on a silver basis with the expectation that the coins were afterwards to be raised to a parity with gold would tend to encourage speculation to a greater degree than if the new system were established at once on a gold basis. It would tend still further to the unsettling of business, and while it might prove a source of considerable profit to the bankers or to others who might have large stocks of the new silver on hand, it could not but prove detrimental to individuals who had obligations to meet, inasmuch as they must be met in a coin whose gold value was greater at the time of payment than when the obligation was incurred.

4. The Government would derive directly a benefit from an increase in its revenue, inasmuch as it would be expected that comparatively

soon all the obligations due the Government would be collected directly in terms of the new coin, and even though the readjustment were so made that there would be no additional burden laid at first upon the taxpayer, the Government would at any rate be saved from the loss in the value of the revenue collected which might come from the subsequent depreciation in the price of silver such as it has suffered during the last few years, a loss, as we have seen, of nearly 50 per cent since 1882.

Even though the Chinese Government might need to make a new loan at first to start the new system, the added power to pay taxes which would soon come, as has been shown, would be so great as to make the real tax burden less than it now is.

5. A somewhat indirect benefit, but one which, beyond question, would be felt in the long run, would be that which would come from improvement in business methods under the influence of the example set by foreign investors as their capital and business increased in the country.

It is believed to be not merely more beneficial to China to start on a gold basis, but if the gold basis is the end to be attained, it is easier then to start with silver, which must afterwards be placed on a gold basis, because as soon as the Chinese people perceive that the new coin is practically gold and is in consequence not subject to the depreciation which they have experienced of late in silver they will be much more ready to accept it and hold it for regular investment than if it were merely a silver coin still subject to the fluctuations of the metal. Indeed, there is a possibility, although one that would in no way prove an evil, that the new coin might for a considerable time be hoarded by many Chinese as they would hoard gold.

If general circulation throughout China were given to a silver coin before it were placed on a gold basis, it would not give this confidence. Besides there would be considerable danger of the issue being so large that when an effort were made to place it on a gold basis there would result the necessity, as was the case in India, of a relative contraction in the currency as compared with the business demand, which would produce the ill effects of falling prices already mentioned. If the coinage were also free, there would be likelihood of the melting of the coins, of the subsequent recoinage of the metal, and so on, which at present exists and which would render it practically impossible for the Government to have any accurate knowledge as to the amount of coins in circulation, and in consequence the difficulties of regulating and maintaining the system on a gold basis would be vastly increased.

The fact must be recognized also that in any case the new monetary system must work its way slowly throughout China. The mere physical requirements for coining enough silver to supply the needs of 400,000,000 people or more will make it certain that many years will elapse before there can be a national system of any kind which shall be generally employed throughout China. If, therefore, it is proposed to have a national system thoroughly introduced before it is placed on a gold parity there must be a delay of many years before even the treaty ports and foreign countries could get the benefit of stable exchange. On the other hand, if the system is introduced on the gold parity, it may, and must in fact, be introduced first in those treaty ports and in other places where exchange with foreign countries is common. These benefits will be secured from the beginning, and then as the new coins increase in number they will gradually make their way, with the aid of the viceroys, through the different provinces into

the interior, and the system can doubtless be completed in its final form in substantially the same length of time that it would take to introduce the silver currency throughout the country, even though it were not on the gold basis. The difficulties of the maintenance of par of the system throughout the country will be discussed later.

The difficulty, then, of having the Chinese people accustomed to the use of the new coin would be met as readily under the one plan as under the other by the mere physical impossibility of coining the silver rapidly enough unless special efforts were made to hire foreign mints to do the work, and the people would become the more readily accustomed to the new system if it were on the gold basis, inasmuch as the benefits to them would be greater.

The opposition of the individual bankers and the hostility of the local officials, if such were found, can also probably in part be met by the method employed in the introduction of the system. It would probably be best to begin first in perhaps only part of the treaty ports and larger cities, say in Peking, Tientsin, Shanghai, Hankow, and Canton. Owing to the form of government in China these cities, with the country immediately adjoining, can be considered practically as territorial units, and the system might be started in them as if they were independent territories. As soon as a sufficient number of coins were ready to meet a noteworthy part of the monetary needs of the community, say 25 per cent, they might be introduced, the Government making them receivable at their par value in payment of all public obligations, and even if it seemed desirable making the payment of these obligations in the new coins compulsory. Under those circumstances the Government should also provide in those cities a sufficient number of exchange agents of tried probity, so that the native Chinese who had taxes to pay could bring their copper cash or their silver cycees or Mexican dollars to these agents, secure the new coin at fair rates, and then immediately use them in the payment of their obligations due. In this way they would see at once the superior value of the new coins in the payment of obligations. They would know that they could always be employed for this purpose, and they would in consequence not hesitate to receive them.

It might be found advisable for the Government to employ as exchange agents the European bankers and the native banker, who might be in this way properly compensated for work done for the Government, and thus a source of profit might be created which would tend to remove the opposition which they might otherwise display. Indeed, if the Government were itself making a profit from the seigniorage of 10 to 20 per cent, it could well afford, if for political or economic reasons it seemed desirable, to pay a rather high commission for this work. It would not be possible for the local officials to take an unfair advantage of the exchange of the old money into the new coins, provided the Government started the reform in small territories like the cities indicated and appointed directly exchange agents whom it could trust. The amounts to be received and the terms of exchange ought to be made so public that it would be comparatively difficult for extortions of the kind indicated to be practiced.

From these cities where the system was first introduced it should, of course, be extended as rapidly as possible, considering the necessity for meeting the need for coins and of securing the proper governmental control, into the adjoining provinces, where the people are already accustomed to coin and where the viceroys and other local officials would be most in favor of the new plan, and then gradually

it should be extended from city to city and province to province into the interior.

The people in the coast provinces now accustomed to the use of the Mexican or British dollar would soon, as is shown by the experience of Russia in Bukhara, of the English in Hongkong, and of Japan and British India, learn the use of the new coin and the fact that its par value was above its metal value. The people in the interior, not accustomed to the use of coin at all, would gradually, through the possibility of paying their governmental obligations in them at once, acquire the custom of using coin in such a way that they would be freed from the extortions of the money changers and would thus be led to see at once the advantages of the new money.

While, speaking generally, the European bankers have expressed sympathy with the plan for the adoption of a new monetary system for China, it is recognized that the adoption of a system on the gold standard would tend to lessen their profit from exchange business. While farsighted bankers are not likely to place obstacles in the way of such a reform—since in the long run the plan would probably prove profitable to them, as well as from the fact that they would at any rate hardly openly oppose such a great economic benefit to the country as a whole, even though it were somewhat detrimental to their individual interests—it may be worth while to indicate what the effect of such a system would probably be on the business of the foreign bankers. There is every reason to believe that, although there would be a decline in the rate of the profits which have been recently derived from falling exchange, there would be enough increased business from loans, discounts, and other sources to offset this loss.

In India it is stated that, although the profits from exchange business have fallen off since stability of exchange has been practically secured, the bankers have been decidedly successful in increasing their loans. In Japan it is stated by one of the great bankers that since the introduction of the gold standard there their profits have on the whole doubled. It is scarcely to be expected that so great a benefit could come to China on account of the different methods of doing business. Still it is probable that within a very few years a considerable net gain would be secured. In Mexico some of the largest exchange bankers, whose profits for the last few years from exchange have been very large, are ready to take the risk of this loss because of the certainty of new foreign investments, for which they might readily become the agents. Moreover, in the case of foreign investments the banks would naturally act as trustees for public companies, and in other ways become the agents of business enterprises, etc., to a degree which would bring them large profits. From all these sources and from others which will readily occur to a banker, the farsighted banker would be certain that in the long run not only the country as a whole but his banking interests would gain rather than lose.

#### DISCUSSION OF PRINCIPAL POINTS OF PLAN.

Inasmuch as China has few if any men who have been thoroughly trained in the organization and management of monetary systems on the European or American plan, it would be necessary, in order to secure the sound management of any new system, that foreign experts be placed in charge of the mints and be given supervision of the creation and operation of the monetary system as a whole. Of course by far the largest part of the work would be done by Chinese, and the

foreigners would hold their positions as appointees of the Chinese Government; but it would be absolutely necessary, in order to secure the requisite skill and confidence in success, that they be given a large measure of discretion in management, at least for the first few years.

In order to avoid so far as possible international jealousy, it would doubtless be wise that the few foreigners who would be needed to organize and manage the system should be selected at first from different nationalities; but it would also doubtless be best for China, as well as for the success of the system, that they be not in any way representatives of their governments. Foreigners thus appointed should be experts of such standing that they would have the confidence of business men, both Chinese and foreign, and of the governments.

As Chinese appointees they should see to it that the interests of China are fully cared for and protected, and to this end, of course, they should give every degree of publicity to the way in which their work is carried on. It has even been suggested as a wise plan that the controller of the currency should not merely make monthly reports in detail of the condition of the currency, including amounts in circulation, of loans and drafts on foreign credits, and other matters such as are usually published by European governments, but, further, that the Chinese Government should voluntarily open the controller's accounts at reasonable times to inspection by accredited representatives of the powers interested in the indemnity. These accounts would be only those usually published, and would not be those of the fiscal system in general, but only those connected with the monetary system. Of course no power would have any right to make such a demand, but inasmuch as the success of the system depends upon public confidence, the Chinese Government could perhaps in no other way so easily and so wisely secure confidence as by voluntarily giving this right of inspection to the powers. China might well, also, be willing that they should make any suggestions and recommendations regarding the management of the system which they saw fit, although of course the foreign experts in charge of the system and the Chinese Government itself should not be placed under any obligation to follow such suggestions.

It is clear, of course, that the monetary system as such should be kept entirely separate from the fiscal system. The income of the state from taxes of various kinds should be kept entirely separate from the income in connection with the seigniorage of the monetary system, and the expenses of the state in every way, excepting those in connection with the monetary system, should also be kept apart. So that while the details of the monetary system should be made public, these would in no way give any person information regarding the fiscal system of the country beyond that which would normally be secured in other ways.

It is believed that while a reasonable degree of foreign assistance must be secured by China in order to make the success of a new monetary system secure, it would be unwise for the foreign governments as such to take any part in the matter or take any supervision over the system beyond the inspection which might be offered by the Chinese Government itself. Different governments would beyond any question find it extremely difficult, if not even impossible, to work in harmony in connection with a matter so important and so complicated as that of a monetary system.

## OUTLINE OF SYSTEM.

While the details of the management of a monetary system must be determined in part as the system itself develops, the fundamental principles of such a system must of course be laid down in advance. Whether the monetary system of China should be begun at once with all the coins on a fixed parity with gold, or whether—as has been recommended by a minority of the Commissioners who have discussed the plan of a system—silver coins to circulate at their bullion value should first be introduced and afterwards be placed on a parity with gold, the opinion is unanimous that when the system is completed all the coins should be maintained at a parity with gold.

In such a system there must be adopted by the Chinese Government a standard unit of value. This should consist of a certain number of grains of gold of a fixed degree of fineness, so that its nature can not be questioned. How large this standard unit should be is a matter to be determined in the interests of China herself. The chief purpose of establishing a gold unit as a standard is to facilitate trade and largely that with foreign countries. In consequence the unit should be of such a nature that it will render the keeping of accounts in trade matters as simple as possible. If the different nations with which China trades had the same unit, it would probably be wise for China to adopt that unit.

Inasmuch, however, as the monetary units of Great Britain, France, the United States, Russia, Japan, and Germany are all different, there is no one which would give absolute harmony. The next point of union seems to be one that is somewhat closely related in value to the American 50 cents, the English 2 shillings, the Japanese yen, the Russian ruble, the French  $2\frac{1}{2}$  francs, and the German 2 marks. If China is to adopt any one of these it would seem natural that she should choose one of a country with which her relations are close and with which her trade is large and increasing.

Most nations, however, in order to emphasize their own separate sovereignty in part, and in part in order to check the circulation of foreign coins of equal weight in their own country, have thought it desirable to establish their monetary unit at a weight slightly different from that of other countries. The countries of the Latin and Scandinavian Unions form an exception to this rule. If China were to adopt a similar plan she might, while adopting a unit not exactly the same as any of those suggested, still select one so nearly enough allied to the values already suggested that in ordinary retail dealings there would be little inconvenience of reckoning. In the larger transactions, owing to exchange conditions, there must always be slight fluctuations in rates of exchange which make somewhat complex bookkeeping, so that a slight variation from any of the standards mentioned would be of relatively slight importance.

It is not at all necessary that this standard unit of value be coined in gold. It might be uncoined, like the Japanese 1-yen piece, or there might be no coinage whatever of either this unit or any of its multiples in gold, as is the case in the Philippines with their standard peso. So long as the unit is legally fixed and so long as the Government will maintain the minor coins at a parity with this quantity of gold, it is not essential that the coins be provided.

It is probably desirable, however, that while primarily China should maintain its chief circulating medium, silver and copper coins, at parity with gold, there should be also some coinage of gold. It is

possible that in the course of time the price of silver might rise so that there would be the possibility of the silver coins becoming more valuable than the gold. Under those circumstances a check would be given to this tendency if provision were made for the free coinage of suitable pieces of gold, presumably multiples of the standard unit—5, 10, and 20—such coins to be furnished on demand for a reasonable coinage charge. Under ordinary circumstances, there would be no demand for these coins, inasmuch as silver would be more acceptable to the people, more in accordance with the economic needs of the country, and more profitable to the Government. It might be well, however, eventually, in order to secure the moral effect which might be obtained by an occasional use of gold coins, for the Government to coin some gold on Government account, and from time to time and as suitable occasion offers to pay out some of these coins in meeting Government obligations.

Owing to the economic condition of China, it is desirable that the chief money of circulation be composed of silver or copper. In a country where wages are often not more than \$7 or \$8 a month in American money, and where they are sometimes not more than from \$2 to \$5 a month, and where naturally the standard of living must be on the same scale, it is evident that there would be very little use for gold coins among the Chinese people. The one kind of coin that is at present current pretty generally throughout China is the copper cash. This may be said to be the coin that has been developed to meet the needs of the people in their daily intercourse. In larger transactions they may use silver by weight or in some places in coins. When one reflects that these copper coins which have been developed to meet business conditions are worth each in the neighborhood of one-twentieth of a cent American, one realizes how minute are many of the daily transactions of the people. The current coins, then, must be silver or copper, with the coin which shall represent the unit of value naturally of silver.

These silver coins, which should be maintained at par with the gold unit, should be given, of course, an appropriate device suitable to China, and should presumably for convenience be about the size of the Mexican dollar. It has been urged by some that a better coin would contain about the quantity of silver contained in the haikwan tael, which is nearly one-half larger than the Mexican dollar. Inasmuch as the Chinese is accustomed to reckoning in taels in most sections of the country, it would doubtless be a convenient unit so far as the customs of the people are concerned. The chief objection naturally is that the coin is too large for convenient use. It would probably be generally agreed that the Mexican dollar is about as large a coin as can be conveniently handled in ordinary business dealings. There is no special reason why one name should be given to this coin rather than another, and it might equally as well be called tael as dollar. Of course whatever name were given to the unit its relative value to the haikwan tael and to the Mexican dollar would be fixed by law. The value would be determined somewhat arbitrarily by the gold unit which should be adopted, but it is desirable, as will be explained in the discussion of the ratio, that the bullion value of the coin be somewhat less, perhaps 10 or 15 per cent, than the parity value.

Besides this silver coin, which shall have the name of the standard gold unit and which shall be the chief monetary unit in circulation, there should be coined, of course, subsidiary and minor coins of suitable weight and value, presumably halves, fifths, tenths, twentieths,

fiftieths, and hundredths of the monetary unit, at least, and in all probability coins of still less value, perhaps even as small as a thousandth part of the unit. Probably it would be well to have the minor silver coins proportional in weight to the standard, although as they are less in value the danger of counterfeiting would not be so great provided they were made even lighter. The minor coins of the lower denominations, made of nickel and copper, might be made of such a value as metal as to yield a large profit as seigniorage to the Government.

#### THE MAINTENANCE OF GOLD PARITY.

Perhaps the most difficult, as well as the most important, question in connection with the new monetary system is that of maintaining these silver, nickel, and copper coins at parity with gold.

In practically all civilized countries the fractional coins of copper and nickel are maintained at a parity with the monetary unit usually only by the limitation of their coinage and their acceptance by the Government. They are usually of very light weight as compared with their value, so that there is no temptation to melt them down. The value of each piece being small, it would ordinarily not pay anyone to counterfeit them, as the profit would be slight unless expensive machinery were employed, and this would be likely to lead to detection. It is comparatively easy for the Government, by noting business conditions and meeting requests from business men and bankers, to supply the needs of the country for these coins reasonably well without special danger of such overissue as would cause the coins to depreciate in value.

The conditions, however, are quite different as regards the silver coins, especially those of the larger denominations. These naturally, in a country like China, become the chief means of making payments in all larger transactions, and are used not merely as a medium of exchange, as are fractional coins, but to a very much greater extent they are used as a means of storing values. Inasmuch also as these silver coins represent the unit, and should probably be made legal tender for unlimited amounts while fractional coins are made legal tender for only very small amounts, they will come to represent in the minds of the people the standard by which values are measured more than will any other of the coins. The methods to be adopted are of course in part the same, but further steps may also be required. The principal measures to be recommended are the following:

1. The amount of coinage should be strictly limited and kept entirely under Government control. In the case of the fractional coins it has been said that this measure alone is sufficient to maintain the parity. It is probable, likewise, that in the case of the larger silver coins a strict limitation of the quantity issued to the proper demands of business would be among the most efficient and important of the means for maintaining parity.

There is in every country a certain amount of money work to be done by each class of money. There are a certain number of payments to be made in effecting exchanges. Some payments are for small amounts, which in China will demand a supply of copper cash. All the larger transactions will demand either the unit coin or multiples of the unit for their payment, although, of course, a great saving of the metal coins is made by the use of bank notes, checks, bills of exchange, book accounts, and other common devices. If the amount of coins issued should be at all beyond the business needs of the

country, so that there is not a constant and steady demand for practically every coin in circulation, there will be a tendency for the value to depreciate until eventually, if the supply continues to increase, the value will fall until it reaches the value of the bullion contained in the coin. A strict limitation, then, of the supply by the Government to the needs of business is to be considered the first and most important method of maintaining the parity.

2. As the value of the coin is to be determined by the relations of the demand to the supply, it is of almost equal consequence that the Government itself provide a normal, steady demand. This it can do by its readiness to receive the coins for payments due to the Government, and by so doing manifest openly and indisputably its confidence in their value. The second measure to be employed, then, is that the Government should agree to accept the coins at their full parity value in payment of all obligations due to it. The magnitude of this demand, as compared with the demands of private business, will vary largely in each separate country. It is probably true that in many countries the demand of the Government in the course of the year equals 25 per cent of the entire amount required to satisfy the needs of business. In some countries, even where business is comparatively limited and where the system of barter is somewhat extensive, the proportion might be much larger, whereas in other countries it might well be less. Even the minimum demand, however, from this source is seen to be so large that this method, in connection with the first, would, in most countries where the people had confidence in the integrity of the Government, be practically sufficient to maintain the parity of the coins with gold without any further steps.

3. It is usual, however, to make the silver coins, especially in countries where silver coins are the ones most commonly in circulation, legal tender in the payment of private as well as of public debts. The smaller subsidiary coins would naturally be legal tender for only a small amount, say, \$10; the silver unit, however, would be legal tender for any amount.

4. The further means which is usually advocated, and by many believed to be the only sure means of maintaining the parity, is that the Government agree to redeem the silver coins by the payment of gold, practically on demand. With certain important qualifications this general principle may be accepted. It is not, however, necessary that the redemption be always made on the spot and in gold coins. The method of redemption will, of necessity, depend upon the business customs and needs of the country in question.

In a country like China, where the ordinary medium of circulation is silver, there is no business need whatever for gold to be used merely within the country itself. If gold is required for manufacturing jewelry or for other similar purposes, this is not a question which concerns the monetary system or, generally, the needs of business. Jewelers needing gold for any such purpose should supply their own needs as much as the manufacturers of steel tools should provide their raw material without depending upon the Government. The legitimate demand for gold, in connection with the currency, is a demand only for the purpose of making payments abroad in gold-standard countries. For this purpose not gold within the country itself is needed, but rather a gold credit in the country or countries in which the payments must be made.

If a merchant in Shanghai, with a gold obligation to be met in London, comes to a bank for the means of paying his debt, he does not

wish gold to ship; he wishes, rather, an order for the payment of gold in London.

For the satisfaction of all proper business needs, therefore, in connection with the monetary system, it would be sufficient on all occasions if the Chinese Government were to keep a gold credit in Europe against which it would sell bills of exchange whenever a legitimate demand came from business men for this purpose. This is practically the plan that has been followed by Holland for the past thirty years, and it is the plan which, at length, British India, after several years of effort in that direction, has adopted. In Holland, for example, the national bank, which acts as the Government agent in the regulation of the currency, does not agree to pay out gold on demand to all who present silver or bank notes. The silver gulden in Holland is not redeemable in gold. On the other hand, the Government has for many years declared itself ready to give gold in exchange for silver gulden or other money of the country, provided that gold were needed for the purpose of paying obligations due abroad. This qualified redemption only, taken together with the Government control of coinage and the high credit of the Dutch Government, has been sufficient to maintain the parity of the silver coins during a long period of years, even in times of commercial pressure.

In order to maintain the parity, however, it is not necessary that the Government should hold itself ready to meet all demands for gold for export purposes or for the payment of foreign obligations. Without endangering the parity of the coins in internal transactions, and without in any way injuring the business of the country, it would be sufficient if the Chinese Government were to put its monetary system and its gold reserve at the service of business men, not in the first instance at any time that the demand is made (why should the Government enter into competition with the banks?), but only after the banks and other financiers had been unable to meet the ordinary demands for gold payments abroad, as would be shown by an increase in the rates charged for foreign bills of exchange.

Whenever it becomes necessary for a country to meet the obligations which it owes abroad it is usual for those obligations in the last resort to be met by the goods that on the whole can be shipped the cheapest. If there is a large supply of money in a country whose credit is unquestioned, it may well be that the gold supply in that country will be so large that it will be cheaper to ship gold abroad to settle the balances due than to force down the prices of some other product in order to make that the most available commodity for shipment.

Whether the money metal in a country is the one that can most readily be spared to meet the balance of payments due will depend to a considerable extent upon the quantity of money in circulation as compared with the needs of business. If currency is really scarce in a country having a standard metallic money, it is probable that its value will be so great in terms of goods—that is, the price of goods in terms of money will be so low—that they will be shipped abroad rather than the money itself. If, on the other hand, either through the slackness of trade or through excessive coinage, the supply of gold money becomes larger in comparison with the demand for its use within the country people can more readily buy gold than goods, rates of exchange rise, and money is more readily shipped for the payment of obligations or for investment.

In a country like China, therefore, it would be sufficient if the Government were to announce that it would expect, under ordinary circumstances, the bankers and other business men to supply the needs of those who require gold or silver for the payment of obligations abroad, and that it would meet such requirements only when, owing to the strong demand, the rates for gold had risen considerably above the normal.

If the Government would announce that whenever the rates of exchange on Europe reached a high price above the parity—say 2 per cent—it would sell bills of exchange against its gold reserve in Europe for silver coins or other equivalent paid in, it would find its reserve called upon only when the silver currency had become for the time being redundant, either on account of diminished demands brought about by the state of trade or on account of excessive coinage. In either case, if when money were paid in exchange for the foreign bills of exchange that money were not reissued, but were held in the treasury, a scarcity of currency would thus be brought about, which would soon make it more profitable to ship other goods to meet maturing obligations rather than to take from the channels of trade additional sums of the local currency.

When, on the other hand, owing to the stoppage of the coinage or to the increase in the demands for the coins from an increase in business they became relatively scarce, business men would find it advisable to pay gold either into the treasury of the Chinese Government at home or, more likely, to the agents of the Chinese Government in Europe or America, and to receive in return these silver coins in China to meet their obligations there or to use them for the purchase of goods in the interior. By this means we should obtain in China a currency which would be elastic so as to meet the fluctuating demands of trade, while the Government would be relieved from furnishing gold except under special circumstances which would rarely arise.

If the gold reserve were maintained especially for the purpose of maintaining the parity, and if the banks were to meet the usual commercial needs, it would seem that the reserve fund need not be so large in amount as to be especially burdensome to the Chinese Imperial Government. In India, with its circulation in round numbers of perhaps 1,800,000,000 rupees, or 120,000,000 pounds sterling, it has been found that a gold reserve of considerably less than 10,000,000 pounds, or  $8\frac{1}{2}$  per cent of the monetary circulation, is ample to meet the needs of business for gold export purposes. Even if for a considerable period of time imports of goods were materially in excess of exports, so that the tendency would be toward a strong demand for gold for export, it is scarcely conceivable that a contraction of the currency of, say, 15 or 20 per cent would not be sufficient to overcome this tendency and force the prices of some other goods so low that they would, in effect, be substituted for gold as a means for meeting foreign obligations.

Owing likewise to the unlikelihood of a gold reserve held abroad for such purposes being frequently called upon, it would doubtless be comparatively easy for any country with good credit desiring to maintain such a reserve to secure, on relatively easy terms, gold credits against which it could draw to large amounts if necessary. Such obligations, of course, could not be unlimited as regards amount, but they might be ample; they could not be unlimited perhaps as regards time, but could be renewable, and as soon as an experience

of a few years had shown the wisdom of the management of the system in China, both the need of such a reserve and the difficulty of securing it would be much lessened.

There seems no reason to doubt that by the means indicated the parity of silver coins in China can be maintained absolutely, so far as their exchange value in local transactions are concerned. The fact that a rate of exchange should be charged for bills sold on a gold reserve placed in foreign countries would not affect the local conditions, even though at times that rate should be quite high.

If, however, for the sake of argument, we should grant that under the pressure of abnormal conditions the parity might temporarily fall by a small amount, even then conditions would be vastly better than they have been for the last few years, or than they could be even with a uniform silver coin whose value fluctuated with the value of the metal. This is another reason to be kept in mind, why under any circumstances a determined effort should be made to place the new silver coins on a parity with gold from the beginning and maintain them there.

#### THE ESTABLISHMENT OF A GOLD RESERVE.

It is extremely desirable, in order to maintain the confidence of business men in the new monetary system, that practically at the beginning of the work provision be made for the accumulation of a gold reserve which will be sufficient at all times to maintain the parity of the new coins beyond question. How may this gold reserve be accumulated?

(1) If the price of silver were to remain about where it is at present and the gold unit were made substantially equal in value to the one recommended—that is, to the American 50 cents, the English two shillings, the Japanese yen, the Russian ruble, etc.—there would be a profit from seigniorage of some 8 to 12 per cent on the silver coins. As regards the minor coins, especially those of copper and nickel, the seigniorage profit would be very much larger. Beyond question, all of this seigniorage should be used from the beginning for the purchase of gold to be used as a reserve.

(2) It has already been suggested that the nations interested in the war indemnity might well afford to make some concessions to China provided she would establish a new monetary system which would give a fixed par to exchange in business dealings. If they were to make the concession which has been proposed—the acceptance from China for a period of years of their shares in the indemnity on a silver basis, reserving the right to call for the difference between that and payments on a gold basis at a later period—a considerable saving would be made for China so long as the price of silver does not go materially above its present rate. It would seem entirely proper for the governments, if such a concession were made, to insist upon it that this saving be used directly for the establishment of a new monetary system; and in good part, at least, for the establishment of a gold reserve.

(3) In all probability, however, if the plan is carried through promptly for the most important parts of China, it will be desirable for China to make a loan of considerable amount. To that end it will be necessary, of course, for the Government to pledge specific revenues. Either new sources must be found which can be devoted to this end or some of the present revenues must become more productive. Per-

sons most familiar with the financial situation of China are of the opinion that a more rigid and businesslike management of present sources of revenue would result in a considerable saving, and are also of the opinion that it is by no means impossible to find new sources of revenue which will prove sufficiently productive. It is thought that the people are not taxed to any very burdensome extent, and there is reason to believe that a loan raised for this purpose would soon result in so great an increase in the prosperity of the country that its burden would not be felt at all, as was the case with the loan of Egypt a few years ago which so improved the irrigation system.

It should be borne in mind also that a gold reserve secured thus by a loan would be kept on deposit at interest in Europe and America, and would doubtless be seldom drawn against. The interest that would thus be paid to China on current balances would very materially reduce the expense of the loan.

Furthermore, inasmuch as the loan is not to be employed for ordinary uses, but is only to be drawn against on uncommon occasions, it might suffice if, instead of a very large gold loan, part of the sum necessary should be simply in the form of a gold credit which might be drawn upon at will. This gold credit, which would be merely a right to draw for a specific maximum sum, a right which would seldom if ever be used, could probably be secured at comparatively slight expense, provided there were reasonable confidence in the management of the monetary system.

(4) After the reserve fund or credit had once been established in Europe, provision should be made for its replenishment, in case of drafts being made upon it, by an agreement of the controller of the currency in China to honor silver drafts drawn against the Chinese Government by its agents in Europe in exchange for gold deposited in the fund. The rates should, of course, be fixed by the conditions of the time, and to the controller should be given discretion, within certain limits at least, in fixing the rate. In this way a crisis of even considerable length could beyond doubt be safely tided over, provided the system itself in China were managed intelligently and firmly.

(5) If the Chinese Government could open and work some of the gold mines which the country is said to contain, it is quite possible that within a few years a good supply could be secured from this source.

#### BANK NOTES.

As soon as practicable, if not even from the very beginning, some provision should be made for the issue of bank notes payable in the new currency, to be issued and managed in accordance with conservative banking principles. A proper bank-note system, whether the notes were issued by a single bank or a system of banks under proper organization and control, would give the needed elasticity to the system, by which the amount of currency would practically automatically increase and decrease in accordance with the needs of business.

Such a system would do much to protect the gold reserve. At the time of an increase in business, either for moving the crops or other temporary purposes, unless there were some banking system established, there would be naturally a large issue of the new silver coins. When this extraordinary demand fell off the silver coins might easily be, to a considerable extent, excessive, and thus the rates of exchange would naturally rise and the coins would be paid in for bills of

exchange drawn against the gold reserve. If, on the other hand, a proper bank-note system were established, the increased demands would be met by the increased issue of notes, and a shrinkage in the demand would result in the paying in of these notes and in a consequent reduction of the monetary circulation without danger of a corresponding demand upon the gold reserve.

In the next place the bank-note system would take its part in the supply of the monetary needs of the country at a less cost than would the otherwise larger coinage of silver, always provided, of course, that the bank-note system is established on sound principles.

Of a nature somewhat different is another advantage which, nevertheless, ought not to be overlooked; that is, the advantage which would come from interesting bankers in the monetary system of the Government and getting their counsel and support in the proper management of the system.

Of course the minor points in the establishment of a monetary system for any country, such as the amount of coin that is to be issued before the system is put into effect, the exact time for the introduction of the system, the rapidity of its extension, the places in which the gold reserve or gold credit shall be kept, the size of the loan necessary, etc., must be settled by persons who are intrusted with the onerous duties of putting the system into effect and of its administration. It has seemed proper in presenting the matter generally before the foreign Commissions to indicate simply the nature of the system proposed and the general principles on which it ought to be established.

### III.—THE BENEFITS OF A UNIFORM RATIO BETWEEN GOLD AND SILVER COINS IN ORIENTAL COUNTRIES.

The present time seems to afford an unusually favorable opportunity for introducing a certain degree of harmony into the coinage ratios of the countries and dependencies of the Orient, because so many of them are about changing their monetary systems. At the time when the American Government was asked by the Governments of Mexico and China to aid them in the effort to establish stability of exchange between the gold-standard countries and the silver-using countries the United States were already dealing with the problem of a new monetary system in the Philippines. At about the same time the British Government appointed a Commission to consider the establishment of a new system in the Straits Settlements and the French Government appointed a similar Commission to deal with the problem in Indo-China. In all the oriental countries there seemed to be an awakening, caused by the fluctuations in exchange, to the necessity of some new monetary system.

While neither Great Britain nor France has officially declared her purpose to adopt the gold standard, the one in the Straits Settlements and the other in Indo-China, it has been obvious, and has not been denied, that this is their ultimate aim in changing their systems. From all over the Orient are being heard urgent demands for a correction of the evils of fluctuating exchange. The English newspapers published in China have begun to discuss the possibility of the gold standard in China and have published several carefully considered plans for carrying out this policy, among them the plan of Sir Robert Hart.

The chamber of commerce of Hongkong in February last adopted a

resolution addressed to the British Government asking to be heard before definite action was taken for the adoption of a plan for the currency of the Straits Settlements. At that meeting it was repeatedly asserted that Hongkong could not be separated from China nor from the Straits Settlements in her monetary system. In March or April the Shanghai Chamber of Commerce met and resolved that a gold standard was desirable and should be established in China. The Straits Association, composed of London merchants in the East India trade, met more recently and resolved that the gold standard should be established in the Straits at a ratio of about 2 shillings to the dollar. Siam also has suspended the free coinage of silver and is seeking to establish a fixed gold exchange. The United States passed a law for the Philippines on account of the extreme fluctuations of exchange, and for the further reason that the development of the islands could not begin until stability had been given to the standard. Authority was given to the Philippine government to take such steps as it desired to maintain the parity of the local currency with gold. Mexico also is proposing a reform in her monetary system which would put her on the gold basis, and is therefore in a position to cooperate with other nations in a policy of comparative uniformity of coinage ratio.

One of the strongest objections made to the plan of the Philippine government when it was first proposed in 1901 was that its adoption would put the islands out of harmony with several of the surrounding countries, which were then upon the silver standard; but now that the evils of exchange have steadily been growing more grave and the importance of stability has been shown, Great Britain and France are preparing to adopt the gold standard in their dependencies, and the time seems opportune to reach some conclusion that will improve the trade relations of all these countries. If a circulation of silver is best adapted to their conditions it can be given a fixed relation to gold upon some basis of harmony among all these nations which are now dealing with the problem.

It is desirable under these circumstances to inquire what ratio will most nearly correspond to the present price of silver and to the needs of these countries. In issuing a new silver currency it would seem to be desirable that the exchange value of the coins should approach as nearly as possible to their commercial value as would be justified by other elements in the problem. It is important that the new coins should correspond as nearly as possible to the existing conditions and the habits of the people, and that the introduction of a new system should work as little change as possible in the real effect of contract obligations to pay money. It is of importance also that the new system should cause as little disturbance as possible to the existing scale of wages and prices.

A ratio of about 32 to 1 has the merit of recognizing the depreciation which has taken place in the value of silver for the last thirty years. This ratio is close enough to the bullion value to prevent large profits by counterfeiting. The exchange value of the silver coins should not, however, be fixed at exactly their bullion value at the moment of the reform. To adopt this policy would leave no margin for fluctuations in the price of silver. Should this precaution be disregarded, there is grave danger that the system would be destroyed by a slight rise in the price of silver.

The ratio of 32 to 1 does not mean the absolute stability of silver bullion at that ratio, nor does it mean that the silver coins would

depend upon the ratio for their gold value. The proposed ratio is simply one of weight between the silver coins and the standard gold unit. The silver coin would depend for its value, not primarily upon the ratio, but upon its exchangeability for gold drafts. The fluctuations in the price of silver bullion ought not to affect the value of the coin so long as they do not carry the bullion value above the exchange value.

A ratio of 32 to 1 conforms approximately to the present value of silver, but it departs from it sufficiently to insure the safety and maintenance of the system. It is preferable to any of the existing ratios in western countries—16 to 1 or  $15\frac{1}{2}$  to 1—because it reduces the danger of counterfeiting. From the economic point of view it is less important that the ratio should not give too high a value to silver than that it should not give too low a value. Too high a value results in counterfeiting, which can be guarded against by an efficient system of police; and it increases the element of credit in the coin, which has to be insured by the financial standing of the state. Too low a value, on the other hand, invites the graver dangers of depriving a country of its currency.

The possibility that a rise in the price of silver would wreck a currency system based upon too low a ratio for that metal has led the American Commission to favor a ratio which would allow some margin for fluctuations between the market price of the metal and the legal ratio. Opinion in many quarters had been that silver would continue to fall steadily in price, but the experience of the past six months shows that it is not wise to count too certainly upon the persistence of that tendency. Within about eight months silver had risen from a price of  $21\frac{5}{16}$ d. per ounce, London standard, in December and January last, to a price of about  $26\frac{1}{2}$ d.

Various influences, including the report that Mexico was going to the gold basis and would purchase silver for her new coinage, and the purchase of silver for the Philippine Islands, advanced the price of silver about 20 per cent, even within six weeks. This being so, measures should be taken to guard against wrecking the system in China if such fluctuations occur after its inauguration. If Great Britain had acted on the theory that silver would continue to fall when she began to consider the reform of the currency in the Straits Settlements and had based her ratio on the price at that time she would have fixed upon perhaps 40 to 1 instead of 32 to 1, as is here proposed. Had she done this she would have found her system wrecked by the subsequent rise in the price of silver. As soon as the value of the bullion in the coins exceeded their face value in gold they would have been exported as bullion for sale upon the London market, and the country would have lost its medium of exchange.

Such a case affords an instructive object lesson—that the ratio should not be fixed too low and should be approximately the same throughout the silver-using countries. If one country has a ratio of 40 to 1, another 36 to 1, and another 32 to 1, a slight rise would wreck the system first named, and another rise the second system, without checking purchases of bullion by the third. It seems proper, therefore, to recommend that the ratio for China and other oriental countries should be approximately 32 to 1. It is proposed to leave each government free to follow its own policy, but it is believed also that each government should adopt a ratio that does not differ too radically from the others. The ratio of 32 to 1 allows a margin for fluctuations that may cover the rise and fall in prices of silver for several years. Under such

an arrangement, when the price rises above the bullion value, all governments will cease their purchases of bullion. Purchases will cease simultaneously in all if the ratio is the same. If, on the other hand, any country adopts too low a ratio it runs the risk of losing its currency by the rise in the price of silver. If the coinage ratio is the same in all they will all suspend purchases when the price of silver reaches a certain point. They will do this automatically, when the bullion value passes the face value of the coin, without any consultation or agreement. It is important, therefore, that there should be a common point at which the purchase of silver should be suspended. But if each country had a different ratio the system of one might be wrecked by a rise in silver while the others went on buying until their ratio was reached. It follows, therefore, that some harmony of action is desirable to prevent danger to the new currency systems.

It is not equally important that the countries which already have a higher value for silver should accept the proposed ratio. They would have a wider margin for fluctuations than those countries which adopted a ratio of 32 to 1. In the case of the European countries, with a ratio of  $15\frac{1}{2}$  to 1, and of the United States, with a ratio of 16 to 1, the ratios are so far above the market value of silver that there is no danger of their monetary systems being affected by its rise in price. Even the systems of Russia and British India, with the ratio of about 24 to 1, will not be exposed to this danger by the adoption of the ratio of 32 to 1 in the oriental countries. The American Commission believe, therefore, that the ratio of 32 to 1, or approximately that ratio, would best conform to actual conditions in nearly all the countries which desire to reform their monetary systems.

The United States Commission does not propose any monetary union or any system which will make the coins of one country legal tender in another. Such a system is considered unwise in the present state of economic progress, because it would make the circulation of the countries entering into such a union too dependent upon the errors of any one country which failed to maintain its coins at par or unwisely overissued its money. When Italy suspended gold payments, her paper money fell below par and her metallic money, being customary tender in all the countries of the Latin Union, drifted to other countries. Such a system would not be desirable in the Orient, for the reason that some of the eastern countries might pursue a policy that would disturb the union if the coins of one country were interchangeable with those of another. Substantial uniformity in coinage ratio is desirable, but not concurrent circulation in more countries than one. All civilized countries are equally concerned in the establishment of a stable system in China, and no legislation is asked from them that will affect adversely their own monetary systems.

The question might arise whether a steady demand for currency as a medium of circulation would not compel a government to continue to purchase silver for coinage purposes after it had risen above the ratio price or submit to the inconvenience of a deficient supply of currency. Fortunately, the plans proposed by the American Commission for China, and already adopted in the Philippines, provide a remedy for this condition. The mints would be open to the free coinage of gold. When silver rose above gold, therefore, in its bullion value at the official ratio, and the coinage of silver was suspended, gold could be imported and converted into coin. Thus the demand for silver would be diminished and the demand for gold would increase, with much of the automatic compensatory action attributed to bimetal-

lism in keeping the value of the metals together, but without the danger that the value of the coins of the two metals would part company and alter the metallic standard of the country.

#### IV.—CONSIDERATIONS REGARDING THE PRICE OF SILVER.

The chief task of the Commission on International Exchange is to secure, as far as possible, stability of exchange rates on a gold basis between the gold and silver using countries. The means to be adopted for securing stability of exchange, as has been discussed earlier, are, of course, primarily, limitation of the coinage of silver; the acceptance of the silver coins by the government at a fixed rate of exchange with gold; the making of these coins legal tender, and, if necessary, some provision for the redemption of the silver coins with gold, either directly or by means of bills of exchange on foreign countries. The parity of the silver coins with gold, however, can of course be brought about and maintained much more easily provided the price of silver bullion remains reasonably steady at a price not too far removed from the ratio which the government fixes between the gold unit and the weight of the silver coins.

Whether the absolute price of bar silver be high or low is a matter of comparatively slight importance, inasmuch as the ratio could be fixed to correspond, provided the price remain steady; but if, after a ratio had been once fixed, the price were to increase decidedly (so that the bullion value of coins exceeded their nominal value) the coins would be melted down and the system would be destroyed. On the other hand, if the price of silver were to fall very low the burden of maintaining the parity would be heavier, inasmuch as a larger gold reserve fund might be required to maintain confidence. It is extremely desirable, therefore, especially for the countries that are somewhat weak financially, that the price of silver bullion should remain steady at a point somewhat near the ratio agreed upon.

Heretofore in the international monetary conferences that have been held the evils of a fluctuating rate of exchange have been emphatically set forth, and the need of maintaining a parity of the silver coins with gold has been in argument associated likewise with the price of silver bullion. The remedy proposed in most instances, that of international bimetallism, has involved the free coinage of both metals, and in consequence the maintaining the relative prices of the bullion of the two metals at or very near the coinage ratio. On the other hand, the gold exchange system which has been presented by the Commission on International Exchange separates the monetary value of the silver coin in a large degree from the bullion value. If the credit and financial resources of the government adopting the system are sufficient, there is practically no relation between the bullion price and the coinage price of the silver, so long as the bullion value of the coin does not go above its nominal value. For example, in the United States we are maintaining at parity a silver coin whose bullion value is considerably less than half its coining value. It is desirable, however, as has been said, especially for a country financially weak, that the bullion value should be maintained within, we may say, from 10 to 20 per cent of the coinage value.

Fortunately, at the present time the conditions of the production of silver and of the silver market are much more favorable to such a result than they have been before for several years. In the discussions in Europe these conditions have been made very clear by the representa-

tives of the Mexican Government. Since the year 1893, mainly on account of the closing of the Indian mints to free coinage, as well as to the repeal of the coinage clause of the Sherman Act, and in part, also, on account of the decided increase in the production of silver, there has been a decided fall in the price, so that now it seems desirable to have the price of bullion maintained, as nearly as market conditions permit, at a ratio of somewhere nearly 32 to 1 instead of the former ratio of 15½ or 16 to 1. The conditions of consumption and of production seem to make this, at any rate, possible. From 1873 to 1893 there has been an increase of the annual silver production of the entire world from about 63,000,000 to 165,000,000 ounces of fine silver. The conditions regarding the production at the present time, however, have so changed that the extent of the production is no longer directly dependent upon the cost of producing silver, except so far as the low price has led to the suspension of work in many of the pure silver mines, and in consequence the present product, coming in great part from copper and lead mines, has become, relatively speaking, very steady in amount. In 1893 there was produced throughout the world about 165,500,000 ounces. According to the published report of the United States Director of the Mint, the entire silver output for the year 1901 was only about 10,000,000 ounces more—175,000,000 ounces. When the deduction is made of about 4,000,000 ounces on account of an error resulting from the fact that the output of Bolivia, which reaches the sea after transportation across Chile, was in consequence counted twice, once in Bolivia and once in Chile, the output of that year is only 171,000,000 ounces. For the year 1902 the production is somewhat less, and there seems reason to believe at present prices there is not likely in the future to be much of a change from an average of 170,000,000 ounces a year.

It is noteworthy that, if the silver-producing countries of the world are taken into consideration, the output in all of them, with the exception of Mexico, has declined from 122,100,000 ounces in 1893 to 113,100,000 ounces in 1902. In Mexico, however, the production has increased from 43,400,000 ounces in 1893 to 56,900,000 in 1902—that is, by 13,500,000. This increase in Mexico is doubtless due to the fact that there has been in that country free coinage of silver. The costs of production were, of course, paid in silver. The mine owners taking their product to the mints received back a number of Mexican dollars always proportioned to the amount of silver, regardless of the price of bullion in the market, and their laborers were, generally speaking, paid substantially the same sums in those dollars. Only some comparatively small expenses in connection with the importation of materials being payable in gold increased in terms of their output. Should Mexico give up the free coinage of silver, those conditions would naturally change somewhat. We might then anticipate a falling off even in the silver production of Mexico if the price of bullion remained the same.

Of the 170,000,000 to 171,000,000 ounces that may be taken under present circumstances as the normal annual production, about 130,000,000 ounces are produced as a by-product in connection with other ores, mostly lead, copper, and zinc. Only some 40,000,000 ounces come from pure silver mines, the greatest and most important mines of the latter type being closed. In the United States not a single pure silver mine is now regularly worked because it would have to be worked at a loss. The production of silver, therefore, on the whole is not likely to increase materially.

There seems also to be another reason for believing in giving greater stability to the price of silver through the conditions governing the demand. If we take the average annual silver consumption of the world for coinage purposes during the years 1890 to 1901, we find that it amounts to about 93,604,000 ounces, exclusive of recoinage in such countries as Germany, Belgium, the United States, Japan, and Turkey. The use of silver for industrial purposes in the years 1890 to 1901 averaged about 28,000,000 ounces, whereas the Director of the Mint estimates such uses for 1901 at 44,000,000 ounces. The silver dealers of England and the United States claim that the use of silver in the industrial arts during the last ten years has doubled. They are convinced that the industrial uses now exceed 50,000,000 ounces. In England it is certain that the industrial employment has increased in the ratio of 1 to 3.

It is especially to be noted that India, which is so great a consumer of silver, has taken even more by some 10,000,000 ounces a year since the mints were closed in 1893 than she did before that period, and England has also increased her coinage of subsidiary coins for her colonies from 37,792 pounds in 1885 to 859,642 pounds in 1901, excluding the coinage of rupees in India and of British dollars for Singapore and Hongkong. It is to be expected, of course, that the increase in population in the world will lead to a somewhat steady increase in the use of silver, especially for industrial purposes. Tabulated, the average consumption during the years 1890 to 1901, as explained above, gives the following result:

	Ounces.
For coinage purposes .....	93,000,000
For industrial arts.....	28,000,000
For India for the bazaars, inclusive of coinage.....	24,000,000
For China.....	12,000,000
For consumption in the minor countries not included above.....	1,000,000
Total.....	158,000,000

This total is to be compared with an average annual production during the same period of 159,000,000 ounces. On the average, therefore, for the last twelve years the demand and the supply have balanced within 1,000,000 ounces. Under these circumstances it is unreasonable to believe that if the different nations which are regularly buying silver for coinage purposes were in some more or less formal way to reach an agreement that they would make their necessary and legitimate purchases of silver with a certain degree of regularity, this regularity of purchase would have a strong tendency to bring about greater stability of price.

It will be noticed that according to the best information that can be secured, as will be seen from the tables which appear hereafter, there is now a net consumption of silver for coinage purposes of, in round numbers, 100,000,000 ounces a year. There is reason to believe that if a uniform national silver currency is introduced into China which will, in part, take the place of the copper now in circulation there, this consumption will be somewhat increased. For several years to come there will also be a considerable demand from the Philippines, and it is not at all impossible that in the United States it may also be thought by Congress desirable that silver be purchased in small amounts for subsidiary coins. Taking all these things into consideration, it seems that for the next few years 100,000,000 ounces a year for coinage must be looked upon as a moderate estimate. When account is taken of the

very great increase in the use of silver in the industrial arts, it seems not unreasonable to assume that 50,000,000 ounces will be a fair estimate for the average consumption for such purposes. If to these figures are added the 25,000,000 a year which India has consumed for the last ten years in her bazaars, apart from coinage purposes, it will appear that there will be a total average annual consumption of 175,000,000 ounces, or an amount equal to the reasonable expectations for the output of silver under present prices and present conditions.

The second factor, however, in the problem must be the conditions of production. Even though we might reckon safely on the normal demand at present prices, we could not be at all certain in drawing conclusions unless there were reason to believe that the conditions of production would remain substantially the same, or would, at any rate, not become such as either to flood the market or to deprive it of its normal supply.

One of the most interesting factors in the whole problem, however, is the new condition that has arisen in connection with the production of silver. During the years of the unfortunate experiment of the United States under the Sherman Act the conditions of silver production were entirely different from what they are now. At that time a large percentage of the silver was produced in mines whose chief product was silver. The output of such mines was, therefore, largely dependent upon the price of silver. At the present time those mines whose production is dependent only upon the price of silver do not produce, on the whole, more than 25 per cent of the entire silver output. It should not be forgotten, as has been stated before, that the production during the last ten years has been substantially unchanged, and that in spite of the fact that the average annual price of silver has fallen from 35.5d. to 24.1d., or more than 30 per cent. Such a stability in production with so great a fall in the price shows a decided change in the conditions.

The pure silver mines became quickly unprofitable. The richest ores were used up and the mines then abandoned. With present prices people are no longer looking for silver mines. It would not pay in most instances to go to the initial expense of purchasing machinery and opening them up.

The cheapening of metallurgical processes and the lowering of railroad freights, as well as the improvements in the application of power, have made it possible to open up and work mines which have some silver in connection with copper, lead, or zinc. This cheapening of the cost of production, however, can not be expected to continue indefinitely. At the present time the reduction itself of the cost of production during the last — years has already been more than the present entire cost of production. Improvements may further lessen the cost of production in the future, but never again to so great a degree as heretofore. The impossibility of maintaining the production of silver through the single means of a further lessening of the cost is shown also in this fact, that the price of the other metals which are produced in connection with silver has been continually increasing. When, for example, a copper mine produces also a considerable amount of silver, if the price of silver falls, the tendency is for the price of copper to increase, and vice versa. If the prices of lead, of copper, and of zinc, in connection with which silver is chiefly produced, were not higher than they were four years ago, the silver production of the western part of the United States would probably, even at the present

time, be insufficient to meet the demands. The following table shows the fluctuations in the prices of lead, copper, and zinc during the years 1895-1902:

	London.		New York.	
	1895-1898.	1899-1902.	1895-1898.	1899-1902.
Lead .....	£ s. d. 11 17 0	£ s. d. 13 18 9	\$3.39	\$4.31
Copper .....	47 11 9	66 3 1	11.24	15.80
Zinc .....	16 6 6	20 4 6		

This increase in the price of copper and zinc with the increasing demand for those metals has brought about a noteworthy stability in the production of silver. This may be expected to continue in the future so long as the use of the other metals does not lessen on account of the higher prices. It appears now that the point has about been reached at which the stability of the price of silver has become almost independent of its cost of production, since the supply of the other ores which are produced in connection with silver is dependent to a considerable extent upon the price of one or more of those metals which are produced in connection with it, and that price is apparently as high as it can go without a decided lessening of consumption.

Another reason for thinking that the supply of silver at the present time does not exceed the demand is that, as a matter of fact, there are absolutely no stocks of silver held anywhere in the world. The demand and the supply of silver, therefore, at the present time, seem to have reached an equilibrium.

The reasons for the great fluctuations in the price of silver bullion for the last few years must, therefore, be sought in other causes. These causes are to be found chiefly, probably, in the conditions which govern the sale of silver. Out of the 170,000,000 ounces produced annually about 100,000,000 on the average are marketed at London, and this amount is chiefly in the hands of four or five brokers. The actual sellers of the silver to these brokers, strange as the fact appears at first sight, have very little, if any, real interest in the price itself. It is their custom—for the smelters are the chief sellers—to sell their silver at the London price and immediately to buy a corresponding quantity of ore from the miners at a corresponding price. They receive from the miners a certain fixed sum in gold for each ton of ore to cover the expense of smelting and selling. In consequence it will be seen that the price of silver determines the price of ore, and the profits of the sellers are not materially lessened if the price of silver falls nor increased if the price of silver rises. The point which concerns them most is that the price of silver remains steady, so that they can count upon a steady output from the mines which shall keep their smelters running at full time.

Another factor contributing to the same result is that the chief buyers of silver, the governments, are likewise not particularly interested in the price. Other things equal, of course, government officials would like to buy silver cheap, but the government, where the country is on a gold basis and silver is coined at the old ratios, is sure to make considerable profits from the seigniorage, whether the price be a little lower or higher. Under these circumstances, naturally, the silver market has been subject to speculation on the part of brokers and has been extraordinarily sensitive. We have seen within a year,

apparently on account of a relatively small demand from the Indian and Philippine governments, combined with the possibility that there may be other demands from other countries, an increase in price of 10 per cent within six weeks and of some 20 per cent within a few months, whereas two years ago there was a corresponding fall in the price, due apparently almost entirely to fears lest there should be a check in the demand from the adoption of the gold standard by Mexico and other countries, even though there was no real lessening of the demand, or to market manipulation without any substantial reason.

Another important factor in connection with the production and sale of silver, which is an entirely new factor, is the combination among the actual sellers. Of the 170,000,000 ounces of the world's production, about 60,000,000 seem to have a local market in the countries where it is produced. The remaining 110,000,000 come to the London market. On account of the combination among the smelters and other sellers at the present time, four great firms are able to control a large percentage of this 110,000,000 ounces, and there is every reason to believe that within a year practically this entire amount can be handled, if it seems desirable, by one seller.

For the reasons which have been given above, it seems therefore probable that if a reasonably steady demand on the part of the governments for the silver which they actually need from year to year could be assured, the supply could be so handled that the price would be kept steady to a much greater degree than has been the case in recent years. It is not to be expected that the price would be absolutely stable, but there is reason to believe that it would become so nearly stable as to be of material assistance in establishing the monetary system on a gold-exchange basis in the present silver-using countries.

It was suggested by the Mexican Commission, as will be seen in the data submitted by them, that two or three great banks, like the Bank of England, the Bank of France, and the Bank of Germany, might undertake to act as agents for the different governments in making purchases. Sellers could then put a sufficient amount of silver into the hands of these banks, who could distribute it among the different nations in a regular way, so as to satisfy their needs and at the same time prevent any great irregularity in the demands. Of course, under such circumstances no government would be expected to buy any more than its regular coinage needs, nor to buy any above an average price agreed upon. If most of the countries which are now contemplating the establishment of a gold-exchange system were to adopt a ratio of about 32 to 1, it would be expected that the governments, for their colonies and for their own use, would not buy silver if it were to go above 28d. or 29d. per standard ounce. If any agreement were made in this respect among the nations, it would of course be understood that their purchases were to cease, if they desired, when the price went above this maximum.

This much with reference to the present conditions in the silver market as affecting the ease of the establishment of the gold-exchange standard.

The following points should be distinctly kept in mind as opinions of the American Commission on International Exchange.

(1) While it would be beneficial that the price of silver remain steady, it would be very injurious to the systems under contemplation if the price were to increase materially above the present price.

(2) Any purchase of silver beyond the actual monetary needs of any of the governments who might be willing to make their purchases with regularity would not only be of no benefit, but would be decidedly dangerous to the success of the whole plan, inasmuch as it would mean the accumulation of a stock of silver which might eventually come into the silver market and unsettle the price. The purchase of silver under the Sherman Act brought about such an artificial condition of the market, and there is every reason to believe that every attempt of that kind would fail in the future as it has failed in the past. Artificial conditions must be avoided.

(3) On the other hand, heavy losses have come to governments and to business men in various lines through the great decline in the prices of silver during the last few years. It would be beneficial, apparently, both to the governments and banks of issue which hold large stocks of silver on hand and to private individuals if this fall in the price of silver could be checked and the price remain stable. In addition to this, the security of the monetary systems of all countries using silver, whatever the ratio, would be greatly increased if the price were to become reasonably stable, so that it could be depended upon. There is no reason whatever why any government with these good results to its monetary system or the monetary systems of other countries with which it has important commercial relations or seeks new ones should hesitate to adopt any reasonable measures looking toward that end, even though such a measure were to benefit a great industry like that of the production of silver either in one's own country or in a foreign land. The question is purely one of business, and, so long as the monetary systems of the gold countries are to remain unimpaired, should be considered from a business point of view.

#### V.—METHOD OF MAINTAINING THE CURRENCY OF THE PHILIPPINES AT PAR WITH GOLD.

The question of the gold reserve and of the demand for gold in any country adopting a gold-exchange standard, or, in fact, any other system, is essentially a question of the supply and demand for currency upon the one hand and for merchandise upon the other. In a gold-standard country, if there is too great a demand for merchandise—that is, if the imports of merchandise are excessive—the fact reacts upon the exchanges in a manner which causes exports of gold and makes money scarce and thereby raises its price.

In the Philippines and in China the practical operation of the plan proposed would be the same as in a country with a pure-gold currency. When the exchanges are adverse, there is a demand for gold to settle obligations abroad. The essential question is whether the stock of gold is sufficient; that is, it is essential that there shall be enough to cover the ebb and flow of exchange. So far as the interior currency is concerned, it does not need to be in gold. It simply requires to be kept at par with gold for the purposes of domestic transactions, and it will remain at par so long as foreign exchange can be furnished at rates approaching parity.

If the local currency is withdrawn from use when it is paid for foreign bills, then the circulation will be contracted. This will cause an increased demand for currency in relation to the existing supply. The reduced volume of local currency would operate upon the rates for money and would enable the bankers, through their relations with European centers, to deal with the situation by keeping money

in Hongkong and Shanghai instead of remitting it to Berlin or Paris or St. Petersburg when there was a scarcity in China. The rates for money at different capitals would influence its transfer, independently to some extent of the balance of trade shown by shipments of merchandise. It is a matter which would regulate itself under natural economic law, under any proper management of the exchange funds, and under the intelligent policy which would naturally be pursued by the banks. Money and capital always seek the points where they earn the highest return, other things being equal. In New York there is to-day perhaps \$150,000,000 of French money which might be transferred to London or Berlin if money became scarce there and rates became higher than they are in New York. It is capital which the holders prefer to leave in New York, because it earns high interest rates there, rather than to transfer it to some other point.

The question raised is whether the system proposed for China and the Philippines will operate in the same manner as a pure gold currency and whether the gold fund will be sufficient to meet the demands upon it. We believe that the system in the Philippines and that proposed for China have been so adjusted that they will meet the demands for gold as such demands arise and will produce the natural reaction upon the rates for money and upon prices which is produced in a country having a gold currency and subject to the usual operations of exchange.

The system is so adjusted that it will work automatically. In China in particular it would be introduced so gradually that there would be almost no probability of an excess of local currency being issued for many years. The controller of the currency or any functionary charged with its control would naturally govern his issues by the rapidity with which the currency was absorbed. If he found that every piece of money coined readily went into circulation, that it did not come back for reimbursement in gold or for the purchase of exchange, he would continue to issue money as rapidly as the mints permitted. If, on the other hand, he found that there were large demands for exchange and for reimbursement, if reimbursement were offered in gold, he would suspend his issues until the new currency was absorbed.

In order to secure the automatic operation of the proposed system in the Philippines, it is intended to provide that when the local currency is paid for drafts upon the gold fund that local currency shall be locked up. If this currency is locked up and thus withdrawn from circulation, the inevitable effect is the same as the export of gold. That is precisely what is proposed in the Philippines—that whenever there is a demand for drafts upon the gold fund of the Government, which will be kept in New York, the proceeds—that is, the money paid in for those drafts—shall be set aside (what the English call “earmarked”) and not paid out again except when the condition changes. Inevitably, then, if there should be an excess of 10 per cent in the circulation and drafts upon the exchange fund should reach that amount, that amount of money would be withdrawn from the interior circulation of the islands.

If money became scarce in the islands, on the other hand, the rate for its use would be raised, the discount rate would rise, and the money could be drawn out again from the local treasury by offering gold. Now, that gold might either be brought to the Philippine treasury itself, as we believe is the principle followed in British India, or it might be deposited in the gold fund in New York. In that way

the unnecessary transfer of gold would be obviated by a system of compensation, keeping the gold in New York and meeting demands upon it when they occurred, but replenishing it by the deposits of gold made to draw out local currency again in the Philippines when it might be needed there.

We believe that under such a system exchange will control itself automatically, exactly as in a gold country, because the withdrawal of the local currency from circulation will create a rarification and scarcity of money which will naturally react upon the rates for interest and, to some degree, in time upon the prices for merchandise.

It is obvious that under such conditions the market will not be governed exclusively by the movement of merchandise or by what is usually called the "balance of trade." It will be influenced also by the relative profit in the loaning of money in the Philippines or in New York or London. If the rate for money is high in Manila and low in New York, money will be left longer in Manila.

These conditions give a peculiar power to the Philippine Commission in dealing with this exchange fund, because if they fix a rate for drafts upon the exchange fund which is higher than the ordinary banking rate they exercise a control over the market which makes it costly to transfer money from Manila to New York when the Government considers it undesirable that it should be transferred. It is conceivable, of course, that in a great emergency in China the Government might go so far as to charge 2 or 3 per cent more for drafts than the usual rate. That would be undesirable because it would involve a slight departure from parity, but even that would be a great improvement over existing conditions. It would not affect the interior currency, as that of France was not affected materially during the war, when specie payments were suspended and the notes of the Bank of France went to a discount of  $1\frac{1}{2}$  to 2 per cent.

Now, if that system works thus automatically, and gives in fact a reserve power to those who control the exchange funds sufficient to make it attractive to the owners of money to leave it in the islands in case of stress, the only question is what the ebb and flow of the demands upon the exchange fund will be. The statistics of the import and export trade do not have a decisive bearing upon the question, because a great quantity of foreign capital will undoubtedly be transferred both to the Philippines and to China if their monetary systems are on a stable basis. That capital of course will come in the form of exports from England, from the United States, and from other countries in the form of merchandise, railway equipment, subsistence for European laborers and luxuries for entrepreneurs. It will not be paid for in full by exports of merchandise from China. It will be paid for simply by the transmission to those leading exporting and lending countries of titles to securities—the bonds and stock of European and American corporations.

There is no doubt but that large amounts of such capital will be invested in the Philippines and in China and in Mexico when they are on a stable monetary basis. In Manila there have been for two years many cases of American promoters who were ready to engage in enterprises there, but did not dare to do it until exchange was given stability. In the case of Mexico we have been informed by our Mexican associates that there are, perhaps, from \$150,000,000 to \$200,000,000 in capital awaiting investment—that is, capital held in the United States, in France, in England, in Belgium, and other countries—which

the owners will not invest so long as its value is liable to shrink by the fall in silver.

It is obvious that it would be very imprudent for a Mexican banker to borrow in Paris, for example, 5,000,000 francs, to be repaid in five or six months, even at the prospect of a large profit, because its gold value in two months might decline much more than the large prospective profits. It is certain, therefore, that in Mexico and the Philippines—and it would undoubtedly be the case also in China—there would be a great amount of imports of merchandise soon after the monetary system is put upon a stable basis, but that large excess of imports into China would not constitute a burden or impose a strain upon the monetary system of the country. On the contrary, it would create industries and resources in those countries which would greatly increase their ability to retain their currency, to pay their foreign obligations, and to increase their wealth and their power to consume.

A country is naturally much stronger which has securities to bring into the market on occasions of monetary pressure than one whose operations must be governed almost entirely by the movements of merchandise and the movements of currency. Securities in such cases act as a source of buffer which softens the shock of the pressure for currency, but, notwithstanding that fact, a country which has no securities feels perhaps more promptly and keenly the effect of an erroneous balance of trade, of too heavy purchases of foreign goods, or of reducing its exports too much. Perhaps such a country feels the effects and takes action to rectify them more promptly than a country whose securities mitigate and soften those movements. It is certain that if a large amount of money is withdrawn from the interior circulation and locked up in the manner proposed in the system for the Philippines it must react soon upon the prices of merchandise.

The gold reserve should undoubtedly be large enough to meet all probable emergencies and to cover the ebb and flow of commercial demand. If such a fund were constituted at the beginning, the balance of trade would right itself through the natural operation of the rates for money. Under modern economic conditions it is not possible for a country to be denuded of its currency beyond a certain point without bringing forces into play which stop the loss. This has been demonstrated again and again in monetary history. It is one of the plainest and most indisputable laws of money that if any country imports foreign merchandise to an excessive amount under the stimulus of speculation, and exports gold in payment, the influence of the loss of gold is felt upon the money market by the rise in the rate of interest. When the charge for the use of money rose prices would fall, importations would diminish, and exportations of merchandise would increase. Then would come a check to the loss of gold and a restoration of normal conditions.

This is exactly what happened in Russia and in Japan under such conditions. In 1899 Russia exported much gold under the stimulus of the large importations which followed the inauguration of the gold standard. There were those who declared that the country would be denuded of its gold. But the reserve stood the strain and the economic situation righted itself under the operation of natural economic law. The gold stock of the country dropped from 1,591,000,000 rubles at the close of 1898 to 1,566,400,000 at the close of 1899 and 1,492,300,000 for 1900. But this loss of the yellow metal rectified the foreign exchanges, checked imports of merchandise, and brought gold pouring

back into the country in a volume which raised the gold stock of the country at the close of 1901 to 1,525,000,000 rubles and at the close of 1902 to 1,664,800,000 rubles. The experience of Russia demonstrated the truth of the profound observation of M. Witte, the distinguished Russian minister of finance, in his report on the budget for 1903:

“With a normal monetary régime and in the absence of exceptional circumstances, such variations have no great importance. To periods of ebb do not fail to succeed periods of inflow, so that, even if the metal temporarily lost to us had not come back in 1902, its return would have taken place in 1903 or the next few years.”

Japan went through the same experience in 1899 and 1900; but here, again, natural laws produced their usual results and the drain of gold was checked by an arrest of imports of foreign merchandise and the stimulation of exports. In the year 1900 exports of merchandise from Japan were only 204,429,994 yen and imports of foreign merchandise were 287,261,846 yen. It is not surprising, in view of this large excess of imports, that specie (nearly all in gold) went out of Japan to the net amount of 45,189,228 yen. It was freely declared that the monetary reform had failed and that Japan could not maintain the gold standard. But the scarcity of money produced its natural reaction upon the money market and trade, and in the year 1901 exports of merchandise rose to 266,000,000 and imports fell to 282,000,000 yen. The movement of specie and bullion, which showed net exports of 45,189,228 yen from 1900, showed net imports amounting to 1,371,129 yen for the first nine months of 1901. The fact that this tendency has continued until economic conditions in Japan were restored to a healthful basis was indicated by the following dispatch recently printed in the American papers:

“LONDON, *July 18*.—The Tokyo correspondent of the Times says the Bank of Japan's gold reserve is 173,000,000 yen, against 200,000,000 yen in notes, an unprecedented situation. The rate of interest is gradually falling and new joint stock undertakings are being floated. The foreign trade for the half year shows a large increase in both imports and exports, and the harvest prospects are favorable. A strong conflict over the budget is anticipated.”

Japan, although nominally having a gold currency, is in some respects in much the same situation as the Philippines or China would be under this proposed system. Her gold is not to any considerable extent in actual circulation. It is chiefly held by the Bank of Japan. It is substantially a foreign-exchange fund, used in paying foreign balances, but not used in the interior trade of the country. The interior circulation consists of paper secured in part by gold and of silver. There is, of course, some gold. It is seen occasionally, but it is not the common medium of circulation. Under the existing standards of wages and prices gold could hardly form under any circumstances a large part of the circulation of Japan.

One of the important factors in maintaining the parity of currency is that the currency system should be entirely separate from the fiscal operations of the government. China would enjoy this advantage if she placed the custody of her exchange funds in the hands of foreign banks and established intelligent foreign control over her currency system. Other governments—even that of the United States—have suffered from permitting the funds for maintaining the integrity of the currency to be encroached upon to meet the deficiencies of the treasury. China would, in some respects, enjoy an advantage over advanced civilized states if she would make her currency system

entirely independent of her fiscal system. She would enjoy this advantage if her reserves and her currency system were under a control independent of the imperial treasury. This is substantially the case in England, where the issue department of the Bank of England is entirely separate from the banking department and the operations of the Government. The United States found it necessary in the gold-standard law of 1900 to guard against danger from this source by providing that the proceeds of the sale of bonds to replenish the gold reserve should be held as a separate fund and not applied to cover deficiencies in the ordinary revenue.

An important consideration in framing a project for the Philippines was the low rate of wages and prices there. This would be true of China, Japan, and other countries of the Orient. Even if a gold circulation were issued in those countries, there probably is not one man in fifty of the population who would ever see a gold piece. A pound sterling or a \$5 gold piece would represent almost the wages of a month. Hence there is very little need for a gold circulation under any circumstances, so long as those countries do not materially raise their standard of living. The gold held must be used simply as a fund for settling foreign balances and for some of the greater transactions of commerce; but, of course, these greater transactions are settled as far as possible by compensation, by exchange, and by economy in the use of credit. The gold exchange fund simply settles the ultimate balances in foreign trade.

In the Philippines it will be necessary to charge a premium for gold and not to furnish it at exact par for silver, because of local conditions. If the Philippine government should offer to pay gold for silver at Manila, it would practically provide the gold fund for the entire Orient. The foreign bankers in Hongkong, for instance, and other foreign banks all through China, would simply have to send to Manila to get their gold, paying only such charges as were required from Manila to Hongkong. The government of the Philippine Islands would pay the freight and all other charges in order to bring gold to Manila and furnish it there free to the bankers of the entire East. That being the case, the government of the Philippine Islands has been advised to charge a premium sufficient to pay all those charges, at least.

In the case of France this charge of a premium for gold by the Bank of France does not impair the value of the currency for local circulation. Of course, exchange necessarily costs something in any case, but what it is essential that the Philippine government should do is not to pay the cost of bringing gold from Europe or America, including freight, insurance, loss of interest, and commissions, and then limit their charges to the cost between Manila and Hongkong. The Philippine government would have to pay the entire charges on gold from London, and if they offered to deliver gold at par or only at the cost of transferring it from Manila, there would be an immense profit to the banks in buying gold.

The charge of a moderate premium will practically have no effect upon the local currency; while upon foreign trade it will have the effect of establishing a fixed rate of exchange. Whether it is a trifle under gold par is of no importance, because in all countries there is a premium on gold for exportation. If the exporters and importers in the Philippines know that the premium on gold is 1 per cent they can make their calculation with certainty.

The Government rate for gold drafts will probably be absolutely

fixed, but it will be only occasionally that an appeal will be made to the Government. The banking rate will change as it does in all countries, including those having a gold currency. The Government rate will be fixed and will be just enough to protect the gold fund in New York. This premium, it should be clearly understood, is not charged for the delivery of gold in Manila, because the Government will not necessarily deliver any there. They may pursue the same policy which is pursued in India. When it comes to foreign exchange there is necessarily a charge, just as there would be to a man in Paris who wanted a million in gold delivered in Tours or Bordeaux. The local bankers would not give it to him without any charge. Yet it would not be said that that constituted any departure of the French bank-note currency from par. The premium charged in the Philippines will be for drafts upon the exchange fund in New York.

The probability is that gold could not be used to any advantage in Manila and it would not be wanted there, because if a man took it he would have to pay all the charges of shipping it to the foreign port where he had his obligations to meet. If the Government offered drafts upon its New York fund in Manila at a rate below the legitimate banking rate, those drafts would be constantly sold by the foreign banks and employed in transactions between London, Paris, and New York. It would be shortsighted and ill considered to deliver drafts at less than the banking rate or not to charge a slight premium to protect the Government.

It is probable that the Philippine government will occasionally pay out a little gold in order to get it into circulation, in order to say it is upon a gold basis, but there will be no necessity for the use of gold. The scale of wages is so small and the articles purchased by the Filipino people are of such small value that a 10-franc piece, for instance, would represent something like our carrying around a bill for a thousand francs. It would not be employed in the small operations of daily life.

So far as the Philippine government is concerned, there seems to be no doubt of its ability to maintain its circulation at very small cost and without the slightest impairment of confidence. When inquiries were first made in New York a year or more ago in regard to the probable value of the securities of the Philippine government and its bonds, it was stated that a 4 per cent bond probably could not be placed at a better rate than 95 per cent. You understand, of course, that the obligations of the Philippine government are not guaranteed by the United States. Nevertheless, there is doubtless a feeling among the purchasers of those securities that there is some moral obligation and that the United States might not permit default; but the bonds are not secured by any specific legal guaranty.

There is no legal obligation upon the Government of the United States for the debt of the Philippines. That being the case, when the Philippine government offered, this spring, some \$3,000,000 worth of its obligations for one year, paying 4 per cent, on the New York market, they were subscribed for at a premium. Although they run only for one year, the price paid for them was more than 102½, reducing the net charge to the government to 1½ per cent. Beyond that the Philippine government took the proceeds of this loan, deposited it in one of the trust companies in New York, and received interest at 3½ per cent, so that they realized a profit of not less than 2 per cent by borrowing money.

Of course that was due partly to the peculiar conditions of the New York money market. These securities were made available by the Secretary of the Treasury to secure the deposit of the money of the United States in the banks, and it can not be expected that an actual profit will be derived from borrowing in all cases. Nevertheless, the success of that operation indicates how small would be the expense to any government maintaining an exchange fund in this manner. If China, for instance, should issue a loan upon which the interest was secured—if certain sources of revenue were set aside so there was no question of the payment of the interest—she could deposit the proceeds in the banks and receive a good rate of interest for it.

The criticism has been made that in certain cases, as in the United States in 1894–1896, the gold fund has been very costly. The situation in China differs from that in the United States in this respect: Certain sources of the income of the Chinese Government would be set aside for the interest on the loan. They would afford an absolute guaranty of the integrity of the loan, whereas in the case of the United States the national credit of the United States was involved. The national credit of China would not be involved from a fiscal point of view, so far as these sources of revenue were secured. Under certain conditions in time of war they might be suspended, as other governments have had to suspend specie payments in time of war.

The amount of money which is supposed to be in circulation in the Philippines at the present time, and to have been in circulation for several years past, is 40,000,000 pesos. Of course, that is only an estimate. There is no means of ascertaining what is the actual amount. The circulation consists chiefly of Mexican dollars, but in that 40,000,000 pesos are included about 8,000,000 pesos issued by the Government of Spain for exclusive use in the islands. That amount is known with substantial accuracy. Those pieces are considerably lighter than the Mexican dollar. They contain less silver. In the islands they circulate at par with the Mexican pesos, but their lighter weight prevents their exportation. The Philippine government proposes to issue within the next few years as much silver as will replace those 40,000,000 pesos. It is their belief that the demands of business will increase and demand even more, but they will, of course, proceed with great caution when they have gotten up to a point where the country is likely to be fully saturated with currency.

It has been our opinion that the reserve required in New York for the Philippine currency system need not be greater than 15 per cent, and perhaps not so much as that. We would not recommend so low a ratio, however, for a country having less firmly established credit or a country where the project would be more experimental than in the Philippines. In the Philippines the government begins under very favorable conditions. There is a great desire to get upon a stable gold basis among the Americans and foreigners, and even among the natives themselves. The government will, of course, be able to control and to check the circulation absolutely.

The new system is not yet in full operation, because it has required some time to make the coins. They are being coined very rapidly, and the system will be put into operation in the autumn. At that time the reserve will be established in New York, under the same conditions as the sale of the certificates in New York some time ago.

There is one point in regard to the automatic operation of this system, not yet set forth, which might lead to misconceptions if omitted.

It was stated that the operation of the system would be automatic if the fact that when gold was paid for silver, either in the country itself or in the reserve funds in New York, that gold would be held, and, on the other hand, when local currency was paid for gold that silver would be held in reserve until there was a demand for it again by the offer of gold. That might seem to create a situation where there could be no permanent increase in the local currency, but there is a means of obviating such a condition. If there were no deposits of local funds in the gold reserve, and the people still desired additional circulation and indicated it by additional offers of gold, the government would take the gold, buy silver bullion, and by coining it increase the circulation. In other words, the plan does not preclude increase of the circulation when required.

In the matter of increasing the gold reserve in such a case, the government would be governed by the actual conditions. The probability is that they would increase it by at least the amount of the profit on coinage, which would be, under ordinary conditions, 10 or 15 per cent. They would take still stronger measures, if required, but we do not think in the Philippines they would be required.

The Philippine coinage act limits the amount to be coined to 75,000,000 pesos; that is the maximum limit. That is an arbitrary limit like that of 5,000,000,000 francs on the note circulation of the Bank of France, which will be raised, if necessary, by law. The government has a right to issue these securities for maintaining parity to the amount of \$10,000,000 gold. That is the equivalent of 20,000,000 pesos. They have authority, therefore, to maintain a reserve in excess of 25 per cent without recourse to the seigniorage profits on the coinage, but it is our belief that they will not be required to use those powers—that 12 or 15 per cent in gold in New York will always be sufficient.

Pending the transition from the old system to the new—that is, while the new money is not sufficient in amount to take the place of the old—the old will be received at its bullion value substantially. The government is authorized to fix the rate from time to time in the new coin at which the old shall be received. The old coins circulate now at substantially their bullion value. The government has the right to fix the rate at which they shall be received for public dues and in the settlement of obligations, but anybody having made an obligation in the old money can pay it in the old money.

The Philippine government has not felt under any obligation to redeem or even to receive permanently for public dues the Mexican dollars, because they were not issued under its authority. It has felt compelled, of course, to take such action as would not upset economic conditions in the islands during the transition. The Spanish-Filipino coins issued under authority of the government which preceded the American will be treated as an obligation of the Philippine government, but at their current value, which is their value at par with Mexicans.

## APPENDIX C.

### RESOLUTIONS AND REPORTS OF THE FOREIGN COMMISSIONS.

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#### I.—LIST OF THE FOREIGN COMMISSIONS.

*Commission of the Republic of Mexico.*—Enrique C. Creel, chairman; Eduardo Meade, Luis Camacho, Edward Brush, technical counselor.

*Commission of Great Britain.*—Sir James Mackay, chairman; Sir Ewen Cameron, of the Hongkong and Shanghai Bank; Robert Chalmers, of the treasury department; George W. Johnson, of the colonial office; W. Blain; C. A. Phillimore, secretary.

*Commission of the French Republic.*—G. Pallain, gouverneur de la Banque de France, chairman; G. de Liron d'Airoles, sous-gouverneur de la Banque de France; A. Arnauné, directeur de la monnaie; A. Bénac, directeur du mouvement des fonds au ministère des finances; Maurice Bloch; Robert Vasselle, directeur de l'Asie au ministère des colonies; Yves Guyot; Stanislas Simon, directeur de la Banque d'Indo-Chine; Raphael Georges-Lévy; A. Athalin, auditeur au conseil d'état, secretary.

*Commission of the Netherlands.*—N. G. Pierson, chairman; G. M. Boissevain; Rochussen, ex-minister of foreign affairs.

*Commission of the German Empire.*—Doctor Koch, Präsident des Reichsbankdirectoriums, chairman; Doctor von Lumm, Reichsbankdirector; Dombois, Geheimer Ober-Regierungsrat und vortragender Rat im Reichsschatzamt; Doctor Helfferich, Legationsrat und ständiger Hilfsarbeiter in der Kolonialabteilung des auswärtigen Amts; Graf von Roedern, Regierungsassessor vom königlich preussischen Finanzministerium; Roland Lucke, Director de Detuschen Bank; Doctor Salomonsohn, Geschäftsinhaber der Diskontogesellschaft; Franz Urbig, Vorstandsmitglied der Deutsch-Asiatischen Bank.

*Commission of Russia.*—Edward de Pleske, governor of the Imperial Bank, chairman; Alexander Wyschnegradski, chamberlain of His Majesty the Emperor; Illarion de Kaufmann, member of the council of the Empire; Pierre de Bark, president of the Banque d'Escompte de Perse, counselor of the court; Dimitry de Pokotiloff, director of the Russian-Chinese Bank; Nicholas de Malewinski, Benjamin Norman, Baron M. de Medem, secretaries.

*Commission of Japan.*—Y. Sakatani, vice-minister of finance; F. Sugimura, director of commerce, department of foreign affairs; M. Morita, director of commerce and industry, department of agriculture and commerce; S. Matsuo, president of the Bank of Japan; S. Takahashi, vice-president Bank of Japan; J. Soyeda, president Industrial Bank; N. Soma, president Yokohama Specie Bank; Baron Y. Shibusawa, president First Bank; S. Hayakawa, chief director Mitsui Bank; K. Mizumachi, director finance bureau, department of finance; T. Tsukada, councilor, department of finance; K. Kanno, secretary, department of finance.

Representatives of the Chinese Government who attended sessions of the Commissions: At London, Sir Halliday Macartney, Ivan Chen; at Paris, Lion Ske Shun, Yen Chu; at Berlin, Mr. Kingyintai; at St. Petersburg, Koue Fang, Che Tseng.

## II.—NOTE ON THE ACTION OF THE FOREIGN COMMISSIONS.

The action taken by the commissions of other governments than those of the United States differed in form according to the instructions given to these commissions by their respective governments. The British Commissioners desired the adoption of concurrent resolutions, in which the Commissions of the United States and Mexico concurred, the Commissioners of the United States, however, reserving the right to present to other governments their original views without modification upon those points upon which they differed slightly from the British Commissioners. The most essential difference, as stated in the report, was upon the question whether in China the gold standard should be established upon the initiation of a new monetary system or at a later date.

The French Commissioners preferred to prepare a report for submission to their own Government without seeking to reach an agreement upon concurrent resolutions. In their case and that of some of the other continental commissions some slight misapprehensions appeared to have occurred in regard to the exact views of the American and Mexican Commissions. While the discussions were quite full, the technical nature of the subjects discussed and the differences between the proposals made at international conferences and those made by the American and Mexican Commissions were of such a character that it was not surprising that they were not fully grasped in a short discussion. The French Commissioners appear to have misinterpreted the American proposals regarding the degree of foreign assistance proposed to be given to China in organizing her monetary system. They also appeared to attribute to the American Commission the desire to adopt a ratio of 32 to 1 to the exclusion of all other possible ratios, although the American Commissioners sought to make it clear that they desired only an approximation toward the market ratio and did not seek the adoption of the ratio of the Philippines to the exclusion of other ratios which would tend to accomplish substantially the same results.

The report of the Netherlands Commission speaks in criticism of the policy of relying upon open credits with foreign bankers for the purpose of maintaining the parity of a local silver currency as involving the risk that such credits would be withheld at the critical moment. The American recommendations, however, in this respect involved the creation of a gold deposit in favor of the Government selling drafts under such conditions, and would to this extent obviate the danger feared by the Commissioners of the Netherlands that a credit might be refused.

The German resolutions, while concurring generally with the views of the American Commissioners, added a clause in the third resolution regarding the dependence of fluctuations in exchange upon the fluctuations in the value of silver bullion, which did not seem to the American Commission to give due weight to the fact that the suspension of free coinage would bring silver token coins under a different rule from silver bullion.

The resolutions adopted by the Russian Commission lay stress upon the difficulties of the transition from the present system to a gold standard, but the direct representatives of the Government on the Russian Commission appended a note to their conclusions, indicating that some of the difficulties of the transition would be mitigated by the issue of a national currency upon a silver basis, to be afterwards raised to parity with gold.

These explanations seem advisable, not for the purpose of qualifying or impeaching in any way the conclusions of the foreign commissions, but in explanation of a few points upon which the brevity of the discussions and the difference of language apparently led to slight misapprehensions which should be understood in comparing their conclusions with the papers submitted by the American Commission.

### III.—RESOLUTIONS ADOPTED IN GREAT BRITAIN.

CONFERENCE BETWEEN DELEGATIONS FROM THE UNITED STATES, CHINA, AND MEXICO, AND REPRESENTATIVES OF GREAT BRITAIN.

*Points regarding monetary systems for silver-using countries on which the Conference unanimously agree.*

1. That the adoption in silver-using countries of the gold standard on the basis of a silver coin of unlimited legal tender, but with a fixed gold value, would greatly promote the development of those countries and stimulate the trade between those countries and countries already possessing the gold standard, besides enlarging the investment opportunities of the world.

2. That a national currency for the Chinese Empire, consisting of silver coins which shall be full legal tender throughout the Empire, is urgently desirable.

As soon as practicable, steps should be taken for the establishment in China of a fixed relation between the silver unit and gold.

3. That approximate uniformity in the coinage ratio between gold and the silver coins of such countries as may hereafter adopt a gold standard is desirable.

4. That, if there are no further serious changes in the price of silver bullion, it is desirable that the coinage ratio between gold and the silver coins of those silver-using countries which may hereafter adopt a gold standard should be fixed at about 32 to 1.

5. That fluctuations in the price of silver bullion would, to some extent, be prevented by reasonable regularity in the purchases of silver required by each government for actual coinage purposes, and that such regularity is desirable and might be adopted as far as possible in each country subject to its monetary policy and convenience.

#### Great Britain:

JAS. L. MACKAY,  
EWEN CAMERON,  
ROBERT CHALMERS,  
W. BLAIN,  
GEORGE W. JOHNSON.

#### United States:

H. H. HANNA,  
CHARLES A. CONANT,  
JEREMIAH W. JENKS.

#### China:

HALLIDAY MACARTNEY,  
IVAN CHEN.

#### Mexico:

ENRIQUE C. CREEL,  
LUIS CAMACHO,  
ED° MEADE.

EDWARD BRUSH,  
*Technical Counselor.*

LONDON, *June 18, 1903.*

## IV.—REPORT OF THE FRENCH COMMISSION.

[10 juillet, 1903.]

Le Comité chargé par le Ministre des Finances de recevoir et d'entendre les délégations Américaine et Mexicaine, venues en France pour conférer "des moyens les plus propres à stabiliser les changes entre les pays à monnaie d'or et les pays à monnaie d'argent" a l'honneur de lui rendre compte de sa mission.

Les réunions des délégués étrangers et français devaient pas avoir et n'ont eu à aucun moment le caractère d'une véritable conférence.

Il a été entendu notamment qu'aucun procès verbal n'en serait dressé.

Les considérations développées par les délégués Américains et Mexicains, soit oralement, soit dans divers documents ci-annexés, ont été résumés par eux dans un memorandum succinct qui a pu être ainsi traduit :

*"Mémoire des vues des Commissions du Change International des Etats-Unis et du Mexique présente à l'appréciation des délégués du Gouvernement Français."*

"1°. L'adoption dans les pays à monnaie d'argent d'un système monétaire sur un change d'or, consistant en pièces d'argent de cours légal illimité avec une valeur fixe en or, contribuerait, dans une large mesure, au développement de ces pays et stimulerait le commerce entre ces pays et les pays déjà en possession de l'étalon d'or, sans compter qu'elle multiplierait les débouchés pour les placements du monde.

"2°. Un système monétaire national pour l'Empire chinois consistant en pièces d'argent qui auront cours légal illimité dans l'Empire tout entier et auront un rapport fixe avec l'or est désirable et praticable; et des mesures devraient être prises immédiatement par la Chine pour l'établissement d'un pareille système.

"3°. Une uniformité approximative est désirable dans le rapport légal entre l'or et les monnaies d'argent des pays qui désormais adopteraient un système de change fondé sur l'or; et, s'il n'y a pas ultérieurement de changements sérieux dans le prix de l'argent lingot, il est désirable que le rapport légal entre l'or et les pièces d'argent des pays à monnaie d'argent qui adopteraient le système de change fondé sur l'or soit fixé à environ 1 à 32.

"4°. La stabilité dans le prix du lingot argent aiderait beaucoup à l'installation prochaine et à la solidité permanente du système du change fondé sur l'or dans les pays qui sont maintenant à étalon d'argent.

"5°. La stabilité dans le prix du lingot argent serait favorisée par une régularité raisonnable dans les achats d'argent nécessités par chaque Gouvernement pour ses besoins réels de frappe; et une régularité de ce genre est désirable et devrait être adoptée autant que possible dans chaque pays, dans la mesure où cela s'accorderait avec sa politique monétaire et ses convenances."

La rédaction très prudente de ces cinq propositions destinée à prévenir autant que possible toutes objections, se rapproche du texte qui aurait été agréé par les Délégués anglais. A ce sujet, il importe de rappeler que le Gouvernement de la Grande Bretagne est resté com-

plètement en dehors de cette discussion et n'a fait connaître, en aucune manière, son avis sur les points visés.

Le Gouvernement Français jugera sans doute à propos de réserver également son opinion jusqu'à ce qu'il lui ait été possible de procéder à un échange de vues avec les autres puissances intéressées et notamment avec l'Angleterre qui est le grand contre commercial du monde.

Pour examiner utilement les cinq propositions du mémorandum, il sera nécessaire de rechercher au delà du texte imprécis la portée véritable des suggestions proposées.

## I.

Le premier paragraphe exprime l'avis qu'il conviendrait d'instituer dans les pays à monnaie d'argent, un régime monétaire ayant pour base une monnaie d'or avec circulation fiduciaire d'espèces d'argent à cours légal illimité, sans aller néanmoins jusqu'à préconiser l'établissement d'une sorte d'union monétaire orientale. Il semble, au contraire, préférable aux délégués étrangers et d'une solution plus aisée de laisser chaque pays opérer séparément la réforme à l'intérieur de ses frontières.

Il nous a paru qu'aucune objection de principe ne pouvait être élevée contre cette proposition qui comporte néanmoins certaines réserves.

Il convient, en effet, de signaler d'une part, que le régime proposé ne pourra être institué ni se maintenir, dans aucun pays, si d'abord les monnaies étrangères ne sont éliminées de la circulation, si ensuite le monopole des frappes d'argent n'est attribué à l'Etat et exercé par lui judicieusement, si enfin la balance commerciale ne se maintient favorable à la constitution d'une réserve d'or. La stabilisation du change ne sera jamais obtenue et ne pourra durer qu'à cette triple condition. Si ces trois conditions ne se réalisent pas, il n'est plus exact d'affirmer avec ce mémorandum, que la réforme proposée développera les effets les plus heureux pour le commerce entre les pays à monnaie d'argent et les pays à monnaie d'or.

D'autre part, si certains Etats orientaux restaient fidèles au métal blanc et que celui-ci vint à baisser de nouveau, les pays acquis à la réforme paieraient les facilités données à leur commerce avec l'Occident d'entraves peut-être lourdes gênant leurs rapports d'affaires avec des voisins immédiats, la différence du niveau monétaire se reportant d'une frontière à l'autre.

Toutes compensations faites, la balance pourrait bien ne plus pencher du côté des avantages comme se le promettent dans tous les cas les délégués étrangers. Pour que la stabilisation monétaire puisse être considérée sans réserve comme favorable aux intérêts des pays en cause, il est désirable qu'elle soit simultanément réalisée dans toutes les contrées à monnaie d'argent à commencer par la Chine.

## II.

A cet égard, l'adhésion de la Chine à une politique de réforme monétaire, visée par le paragraphe II du mémorandum serait particulièrement souhaitable.

En principe, et d'une manière générale, la commission ne peut que s'associer aux vues des délégués étrangers en ce qui concerne l'accession de la Chine à la civilisation monétaire.

Il faut bien avouer cependant que le problème est pour elle particulièrement malaisé à résoudre.

La Commission Américaine avait dressé pour aider la Chine à en surmonter les difficultés tout un plan de réformes exposé en détail dans le mémorandum du 25 Juin 1903.

En présence des considérations d'ordre politique que ce projet soulève, notamment de l'institution à établir d'un contrôle international, la commission estime que c'est au Département des Affaires Etrangères qu'il appartiendrait d'apprécier si une entente internationale entre les Puissances intéressées est de nature à se produire et à en permettre l'adoption.

Les propositions américaines et mexicaines visaient également certaines conditions de paiement de l'indemnité de guerre chinoise. La Commission ne pouvait qu'écarter de ses entretiens une question résolue par le Protocole de Pékin.

Les délégués américains qui avaient formulé ces propositions n'ont d'ailleurs fait aucune difficulté pour reconnaître qu'elles n'avaient avec les questions en discussion aucun lieu essentiel.

### III.

Le troisième paragraphe du mémorandum exprime le vœu que tous les pays qui passeront de la monnaie d'argent au régime proposé, adoptent le même rapport légal entre l'or et l'argent et fixent ce rapport, s'il ne survient pas de nouvelle baisse du métal blanc, à 1/32.

La Commission ne saurait attribuer à ce desideratum l'importance que lui donnent les délégués américains. Il est bien évident que tous les pays qui voudront stabiliser leur monnaie devront établir un rapport légal assez voisin du rapport commercial, mais inférieur à ce rapport. Si le rapport choisi n'était pas inférieur à celui résultant du cours de l'argent en barres, la moindre hausse amènerait la fonte ou l'exportation des espèces d'argent. S'il était trop au-dessous, le bénéfice de frappe créerait une prime à la falsification ou à l'infiltration clandestine particulièrement dangereuses dans des pays dont les frontières se prêtent si difficilement à une surveillance efficace.

Pourvu que le rapport légal nominal se maintienne entre ces limites approximatives, on n'aperçoit aucune raison essentielle de souhaiter que le même rapport soit imposé à tous les pays. Les monnaies d'argent devant être réduites à un rôle de circulation inférieure sur la base d'une valeur fixe en or, il importe peu qu'il y ait une légère différence dans leur valeur intrinsèque.

On constate en Europe, sans qu'il en résulte aucun inconvénient appréciable, des variations de rapport relativement sensibles entre les monnaies d'or et les monnaies fiduciaires d'argent.

On peut observer, par contre, que tout ce qui tendra à uniformiser les espèces d'argent des divers pays orientaux constituera plutôt un inconvénient au point de vue des importations clandestines au moment même où il apparaît que l'une des conditions de succès des réformes projetées se trouve être précisément la nationalisation rigoureuse des monnaies fiduciaires d'argent dans chaque pays ou colonie intéressés.

### IV ET V.

L'exposé des 4<sup>e</sup> et 5<sup>e</sup> points tel qu'il a été présenté par les délégués étrangers peut se résumer ainsi qu'il suit :

Dans la situation actuelle de la production et de la consommation de l'argent, la baisse de ce métal devrait s'arrêter. En effet, d'une

part, la consommation est égale à la production, ce que démontre l'absence de stock disponible. D'autre part, il n'est pas vraisemblable que la production vienne à augmenter, la plupart des mines d'argent proprement dites travailleraient à perte aux cours actuels.

La plus grande partie de la production provient des mines de cuivre, de plomb, etc., \* \* \* où l'argent ne joue qu'un rôle accessoire.

C'est la demande de ces différents métaux qui commande la production de l'argent et non le prix de l'argent lui-même.

Si malgré cela l'argent baisse, cette situation provient, dans l'opinion des délégués américains et mexicains, de la manière dont fonctionne le marché de l'argent, étroitement concentré entre les mains d'un petit nombre d'intermédiaires qui disposent des cours. Pour contrebalancer leur action, les délégués étrangers voudraient organiser une sorte de syndicat d'achat englobant toutes les Puissances dont les frappes nécessitent des achats de lingots. Les puissances répartiraient leurs achats de manière à éviter dans les cours des à-coups que ne justifierait pas, suivant les auteurs de la proposition, la situation du marché.

Il a paru impossible de suivre sur ce terrain les délégués étrangers dont la proposition soulève des objections de diverses natures.

Sans s'arrêter à ce qu'il y aurait, à première vue, d'anormal dans la création d'un syndicat d'acheteurs ayant pour objectif de maintenir les prix, il ne semble pas que les nations européennes dont quelques unes sont déjà surchargées de métal argent, puissent prendre l'engagement, même moral, de procéder à de nouveaux achats en vue de besoins éventuels qui peuvent ne pas se présenter.

En outre, l'assertion que la baisse de l'argent ne persisterait pas si la loi de l'offre et de la demande fonctionnait dans des conditions normales, paraît très contestable.

Le fait que la consommation dans ces dernières années a égalé la production, ne peut être considéré comme une démonstration suffisante. Ce n'est pas seulement le produit apporté sur le marché qui agit sur les prix, c'est aussi le stock que le producteur serait en mesure d'y jeter éventuellement. Or, l'argent ne vient pas seulement des mines où il n'est qu'un sous-produit, mais aussi, dans une certaine proportion, de mines d'argent proprement dites qui, vraisemblablement, pourraient si les prix augmentent, accroître leur production.

D'autre part, si dans ces dernières années la consommation a absorbé tout l'argent métal venant sur le marché, sait-on si elle conservera la même puissance d'absorption? L'Espagne vient de suspendre la frappe de la pièce de cinq pesetas. Plusieurs pays, reprenant les paiements en espèces, ont dû constituer, ce qui n'est qu'une opération exceptionnelle et purement temporaire, des réserves importantes de monnaie d'appoint. Maintenant que ces besoins sont satisfaits ne va-t-il pas se produire un ralentissement de la consommation? On n'oserait pas affirmer le contraire.

Aussi semblerait-il périlleux de s'engager dans une série de mesures qui, suivant les délégués étrangers, n'auraient d'autre but que de régulariser l'action des lois naturelles, mais qui, en réalité auraient peut-être une toute autre portée et viseraient à soutenir artificiellement les cours de l'argent.

L'expérience déjà faite sur une grande échelle par les Etats-Unis a démontré, une fois de plus, l'inanité de toute tentative de cette nature.

Les Etats-Unis ont acheté de 1878 à 1890 deux millions de dollars d'argent par mois; de 1890 à 1893 quatre millions et demi d'onces d'argent; le résultat a été nul. Le prix de l'argent a fléchi et la production n'a cessé de s'accroître et néanmoins pendant cette dernière

période les emplois monétaires de l'Europe absorbaient annuellement plus de cent millions de francs.

Pour maintenir le cours commercial de l'argent les pays producteurs invitent les pays consommateurs à régulariser la demande, alors qu'ils se déclarent hors d'état de régulariser l'offre.

Il est inutile d'insister sur le caractère anormal d'une proposition qui tend à provoquer de la part de l'Europe une intervention contraire à tous les principes économiques, pour fixer le prix d'une marchandise au moment même où l'on déclare que par fidélité à ces mêmes principes, on ne peut pas se résigner à en régulariser la production.

Vers la fin de nos entretiens, le Mexique a suggéré l'idée que certains Gouvernements pourraient au moins favoriser les emplois industriels de l'argent en réduisant les taxes de vérification ou d'essai, là où elles sont élevées.

Sous réserve des considérations budgétaires que peut soulever cette question, la Commission ne verrait pas d'inconvénient à s'associer à ce vœu déjà émis en France.

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BENAC,  
BLOCH,  
YVES GUYOT,

G. DE LIRON-D'AIOLES,  
R. G. LEVY,  
SIMON,  
VASELLE,

*Membres du Comité.*

ATTHALIN, *Secrétaire.*

[Translation.]

#### V.—REPORT OF THE FRENCH COMMISSION.

*10th July, 1903.*

The committee designated by the Minister of Finance to receive and hear the American and Mexican delegations who have come to France to confer about "the best means to stabilize the exchanges between gold and silver countries" begs to render him a report of its deliberations.

The meetings of the foreign and French delegates were not to have and had at no time the character of a formal conference. It was especially understood that no minutes were to be kept.

The considerations developed by the American and Mexican delegates either orally or in the different documents sent herewith were summed up by them in a brief memorandum which may be translated as follows:

*"Memorandum of the views of the Commissions of the United States and Mexico on International exchange submitted for the consideration of the Commissioners of France.*

"1. The adoption in silver-using countries of a gold-exchange currency system, consisting of silver coins of unlimited legal tender with a fixed gold value, would greatly promote the development of those countries and would stimulate the trade between them and countries already possessing the gold standard, besides enlarging the investment opportunities of the world.

"2. A national currency system for the Chinese Empire, consisting of silver coins which shall be full legal tender throughout the Empire and shall have a fixed relation to gold, is desirable and practicable,

and steps should be taken by China immediately for the establishment of such a system.

"3. Approximate uniformity is desirable in the coinage ratio between gold and the silver coins of such countries as may hereafter adopt a gold-exchange standard; and, if there are no serious changes in the price of silver bullion, it is desirable that the coinage ratio between gold and the silver coins of those silver-using countries which may hereafter adopt the gold-exchange standard should be fixed at about 32 to 1.

"4. The early establishment and the permanent security of the gold-exchange standard in countries now upon the silver standard would be materially aided by stability in the price of silver bullion.

"5. Stability in the price of silver bullion would be promoted by reasonable regularity in the purchases of silver required by each government for actual coinage purposes; and such regularity is desirable and should be adopted, as far as possible, in each country, subject to its monetary policy and convenience."

The very careful wording of these five propositions, designed to anticipate as far as possible every objection, closely resembles the text agreed upon by the English delegates. In this connection it is important to recall that the Government of Great Britain has remained completely out of this discussion and has not made known in any way its opinions on the points considered.

The French Government also will deem it advisable, without doubt, to withhold its opinion until it has been enabled to exchange views with the other powers interested, and especially with England, which is the commercial center of the world.

In order to examine profitably the five propositions of the memorandum, it will be necessary to go beyond the general text and seek the real significance of the suggestions which have been presented.

I. The first paragraph expresses the opinion that it would be advisable to establish in the silver-using countries a monetary system based on gold, with a credit circulation of silver coin of unlimited legal tender, without going, however, so far as to recommend the establishment of any sort of eastern monetary union. On the contrary, the foreign delegates deem it preferable, as affording an easier solution of the problem, to leave each country to manage the reform independently within the limits of its own frontiers.

It has seemed to us that no objection in principle could be raised against this proposition, which requires, nevertheless, certain reservations.

It is essential, in fact, to point out, on the one hand, that the régime proposed can not be established or maintained in any country if foreign coins are not first eliminated from the circulation; if, in the second place, the monopoly of the coinage of silver is not given to the state and judiciously exercised by it; and, last, if the commercial balance does not remain favorable to the constitution of a gold reserve.

Stability of exchange will never be obtained, and will not last except under these triple conditions. If these three conditions are not realized, it will not be correct to affirm with this memorandum that the reform proposed will have the most beneficial effects on commerce between the silver countries and the gold countries.

On the other hand, if certain oriental countries remained faithful to the white metal, and if the latter should decline anew, the countries which adhered to the reform would pay for the facilities given to their commerce with the Occident by fetters which might prove seri-

ous in hampering their business relations with their immediate neighbors on account of the difference in monetary level at their frontiers.

With all these allowances made, the balance might not weigh so heavily on the side of advantages as is assumed for all cases by the foreign delegates. In order that monetary stability may be considered as favorable without limitations to the interests of the countries which are under consideration, it is desirable that it be simultaneously realized in all the silver-using countries, beginning with China.

II. In this respect the adhesion of China to a policy of monetary reform contemplated in the second paragraph of the memorandum would be especially desirable.

As a matter of principle and speaking generally, the Commission can but concur in the views of the foreign delegates in regard to the accession of China to monetary civilization. It must be acknowledged, however, that the problem is for her especially difficult to solve.

The American Commission, in order to aid China in meeting these difficulties, had outlined a plan of reform, which is set forth in detail in the memorandum of June 25, 1903.

In view of the considerations of a political character which the plan raises, especially the proposal to establish an international control, the Commission considers that it belongs to the Department of Foreign Affairs to decide whether an international understanding between the interested powers is of a character to be brought about and whether it is likely to allow the adoption of such a control.<sup>a</sup>

The American and Mexican propositions dealt also with certain conditions regarding the payment of the Chinese-war indemnity. The Commission felt compelled to exclude from its deliberations a question settled by the protocol of Peking. The American delegates who had formulated these propositions did not fail to recognize that they had no necessary connection with the questions under consideration.

III. The third paragraph of the memorandum expresses the wish that all countries which may pass from the silver basis to the proposed system shall adopt the same legal ratio between gold and silver and shall fix this ratio, if there is no further fall of the white metal, at 32 to 1.

The Commission can not attribute to this desideratum the importance given it by the American delegates. It is quite obvious that all countries which seek to stabilize their currency must choose a legal ratio near the commercial ratio, but somewhat lower than that ratio. If the ratio chosen were not lower than that resulting from the price of silver in bars, the slightest rise of prices would lead to the melting and exportation of silver coins. If it were too much below, the profit of coinage would offer a premium to counterfeiting or the clandestine introduction of coins, which would be especially dangerous to countries whose frontiers do not allow efficient surveillance.

Provided the legal nominal ratio is maintained within these appropriate limits, there seems to be no essential reason for desiring that the same ratio be imposed on all countries. The silver currency being reduced to a subordinate rôle in the circulation on the basis of a fixed value in gold, it matters little that there should be a slight difference in their intrinsic value. It is the result of experience in Europe that variations of considerable importance in the ratio between gold money

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<sup>a</sup> Upon this point the French delegates do not seem to have correctly understood the American proposals, which did not contemplate an agreement for foreign control. (See preliminary note.)

and the token money of silver have resulted in no appreciable inconvenience.

On the contrary, it may be observed that everything that tends to give uniformity to the silver coins of the different oriental countries would constitute rather an inconvenience, from the point of view of clandestine importations, as soon as it appeared that one of the conditions of success for the projected reform was found to be the strict nationalization of the credit currency of silver in each country or colony interested.

IV and V. The exposition of the fourth and fifth propositions, as it was presented by the foreign delegates, may be summed up as follows:

In the present state of production and consumption of silver the fall of that metal should be checked; for, on the one hand, consumption is equal to production, which is shown by the absence of an available stock, and on the other hand it is not probable that production will increase, since most of the silver mines, properly so-called, are worked at a loss at present prices. The greatest part of the silver production comes from mines of copper, lead, etc., where silver plays only a subordinate part. It is the demand for these different metals which controls the production of silver and not the price of silver itself.

If in spite of this silver declines, this situation is due, in the opinion of the American and Mexican delegates, to the way in which the silver market is organized, narrowly concentrated, as it is, in the hands of a small number of middlemen, who control the quotations. To counterbalance their action the foreign delegates would like to organize a sort of purchasing syndicate, including all the powers which need bullion for coinage purposes. The powers would distribute their purchases so as to avoid ups and downs in the prices which are not justified, according to the authors of the proposition, by the situation of the market.

It has seemed impossible on this subject to follow the foreign delegates, for their proposition raises objections of various kinds.

Without enlarging on what may appear at first sight abnormal in the creation of a syndicate of buyers with the view of maintaining prices, it does not seem that the European nations, some of which are already overloaded with silver, could assume an obligation, even moral, to proceed to new purchases, in view of ultimate needs which may never arise.

Moreover, the assertion that the decline of silver would not continue if the law of supply and demand operated under normal conditions appears to be very debatable.

The fact that consumption during recent years has equaled production can not be considered as a sufficient demonstration. It is not merely the product thrown upon the market which acts upon prices; it is also the stock which the producer may be in position to bring there ultimately. Moreover, silver does not come only from mines where it is a by-product, but also in a certain proportion from silver mines, properly so-called, which, if prices rose, would probably be able to increase their production.

On the other hand, if during the last few years consumption has absorbed all the silver bullion coming into the market, is it certain that it will continue to show the same power of absorption? Spain has just suspended the coinage of the 5-peseta piece; several countries resuming specie payments have been obliged to constitute important reserves of subsidiary money, which has been an operation excep-

tional and purely temporary. Now that these needs are satisfied, is there not going to be a slackening of consumption? One would not dare to affirm the contrary.

Therefore it would seem dangerous to engage in a series of measures which, according to the foreign delegates, would have no other object than to give regularity to the action of natural laws, but which, in reality, would have perhaps quite a different effect and would tend to artificially sustain the price of silver.

The experiment already made on a large scale by the United States has demonstrated once more the uselessness of every attempt of this nature. The United States purchased from 1878 to 1890, \$2,000,000 of silver per month; from 1890 to 1893, 4,500,000 ounces of silver. The result was absolutely nil. The price of silver weakened, and production has not ceased to increase, notwithstanding that during this later period the monetary demands of Europe absorbed annually more than 100,000,000 of francs.

In order to maintain the commercial quotations of silver the producing countries invite the consuming countries to give regularity to the demand, while they declare themselves unable to give regularity to the supply. It is useless to dwell on the unusual character of a proposition which tends to invite on the part of Europe an intervention contrary to all economic principles to fix the price of a commodity at the very moment when it is declared that fidelity to these same principles prevents the giving of regularity to production.

Toward the end of our discussions Mexico suggested the idea that certain governments might at least stimulate the industrial uses of silver by reducing the verification and assay taxes where they are high.

Reserving the considerations affecting the budget which this question might raise, the Commission sees no objection in joining in this wish already expressed in France.

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BLOCH,  
YVES GUYOT,

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R. G. LEVY,  
SIMON,  
VASELLE,

*Members of the Commission.*

ATTHALIN, *Secretary.*

## VI. REPORT OF THE COMMISSION OF THE NETHERLANDS.

Her Majesty's Government are fully aware of the great advantages of stability of international exchanges. For the last thirty years, whatever party was in office, all steps tending in that direction have been favoured by Holland. As early as 1871, when it was rumoured that the German Imperial Government were contemplating measures towards abolishing the silver and introducing the gold standard, a memorandum was sent to that Government deprecating such measures and recommending the adoption in Germany of the system of the Latin Union based on the double standard. Since that period delegates have been sent by our country to every international monetary conference with instructions to advocate the establishment of international bimetallism as the most proper and efficacious means of securing stability of foreign exchanges.

This clearly shows that on the part of Her Majesty's Government there always was, as there is now, a strong feeling on this point, and that the Commissions appointed by the United States and Mexico might count beforehand on a fair and friendly examination of the measures proposed by them. Independently of these considerations the fact that China, now that it is more and more being opened to the trade of the world, is taking steps toward the adoption of a well regulated national currency system, should be most heartily welcomed.

The measures now proposed differ from bimetallism in this important respect that they do not aim at securing fixity of value of silver in relation to gold (though one of them may be useful in mitigating the variations of value between those metals) but only to secure such fixity as regards certain silver coins. It is intended that the present monetary condition of Holland and her colonies shall be taken as a kind of model for those countries, where the silver standard still exists.

Now, it should be borne in mind that this monetary condition in our own country is not considered as perfectly correct. We are fully alive to its deficiencies and only abide by them, because we have no choice. We try to make the best of a situation into which circumstances, over which we had no control, had plunged us, and we feel very happy in finding that, after all, things go on much better than was anticipated at the outset. In fact, it must be acknowledged that our currency, ever since the act of 1875, introducing the gold coinage (but leaving the silver untouched) was passed, has remained in a perfectly stable condition.

According to the proposals of the American and Mexican commissions it is intended so to regulate the supply of silver coins in Mexico and China that it shall never be excessive; that any redundancy threatening to manifest itself will be at once discarded. We can not but approve of the principles involved in this. As long as international bimetallism can not or will not be established there is no other way leading to the end in view. It only remains to be seen whether it will be possible to avoid the dangers which certainly will be incurred, and for this reason it is absolutely necessary that a very clear perception of those dangers should be gained and stated.

Without magnifying them unduly, we ought to beware of belittling them, and our own experience has taught us that they are considerable. A system, if so it may be called, like the one now since about thirty years in operation in our country and its colonies does not work well automatically. That is the weak part of it. It requires constant supervision, and in the first place an intelligent cooperation between the bank (or the banks, where there are many) and the Government. On this point too much stress can not be laid.

For it would be a mistake to believe that even under a well-regulated banking system and assuming an undiminished home demand for silver coin no redundancy of such coin can arise. It may arise from a large issue of bank notes produced by the granting of credits on an unusual scale, and thereby increasing the volume of the currency. Under the system of the single gold standard this would lead to a drain of bullion, but a drain of silver coins circulating at a value exceeding their bullion value would be impossible in such a case; hence a redundancy could not be avoided. Such an excessive issue of bank notes might leave the situation of the bank itself wholly unimpaired.

Whether this be so or not depends upon the stock of coin and bullion in the bank at the moment when the extraordinary credits were granted. If this stock were very large at that time it is quite possible that even a large issue would not in the least jeopardize the convertibility of the notes. But it may, nevertheless, and under certain circumstances it necessarily will, endanger the state of the currency. Therefore, this is an evil to be guarded against. Of course the bank can not decline the granting of ordinary credits to trade and industry, but it certainly can decline, and whenever the danger presents itself it ought to decline, the granting of extraordinary credits to the State, meaning by this term either the central or the local authorities, as it may happen to be the case. It was, though not exclusively, still to a large extent, by not heeding this danger that in the month of January, 1883, the stock of gold in the Netherlands Bank, which in August, 1880, had amounted to 80,000,000 florins, fell to so low a figure as 5,000,000, the lowest ever touched since the present system came into operation.

The silver money may also become redundant by a too liberal issue on the part of the bank of gold coins for home circulation. The general public will never understand the reasons prompting the bank to withhold such coins when at the same time it is known that gold is freely given at the par value if required for exportation. It is, however, the duty of the bank not to shun the unpopularity it necessarily will incur by adopting this course. Every gold coin that comes into circulation makes an equivalent amount of silver superabundant, and though this should be no reason for declining to issue small quantities as an exceptional favor, it certainly militates against the redeeming of considerable amounts of bank notes in gold, whenever the gold is demanded for no other purpose than home circulation.

It may be objected that all precautionary measures become unnecessary by the fact that arrangements will be made enabling the Government to draw bills on places abroad in case of a rise of the foreign exchanges. Undoubtedly such arrangements will be extremely useful, but we are not sure that it would be wise wholly to rely on them. On the contrary, we rather think that it would be advisable only to make use of such arrangements as an ultimate resource, to be drawn upon when other sources are failing. As a rule, every country should be able to keep its monetary system in a sound condition without appealing to the aid of other countries, and in the present case we do not see that any great sacrifices would be incurred if steps were taken to render this possible. If Holland or France now sold a part of their silver money this would entail upon these countries a heavy loss, amounting to at least 60 per cent of the face value of these coins.

But the Mexican dollar, for instance, is worth no more than the quantity of silver it contains; by melting and selling a certain amount of dollars the Republic of Mexico would lose very little money. Then why should not the Government take some millions of dollars from the banks and give them gold in exchange, so as to supply the banks with stocks of gold large enough to enable them to meet any demand proceeding from an adverse balance of payments? The quantity of dollars to be demonetized need not be enormous; a moderate quantity probably would be sufficient, if the banks could be expected to refrain from any excesses such as previously explained. Our intention is not to deter from making any arrangements with foreign bankers, but to show that a course might be adopted which would make them superfluous in the vast majority of cases; and that would, in the first

place, be in accordance with the dignity of the Government, while it would also give a safer basis to the monetary system than can be found in the opening of credits by foreign bankers; for such credits would be of no avail if circumstances arose impeding the sale of the bills. That this supposition is not unwarranted will be admitted by anyone who has some practical knowledge of the money market. In periods of monetary pressure or by the effect of political occurrences difficulties might arise. It is not impossible even that bills bearing a non-commercial character should be boycotted by the principal banks, and then what would be the situation of the Government? If our opinion were asked, we should advise, therefore, not indeed to give up the idea of the arrangements with foreign banks, but, on the other hand, not to make them the main foundation upon which the monetary system of the country is to rest.

With regard to these drafts there is one detail which we think we ought not to leave unnoticed. In some of the papers you sent us stress is laid on the advisability of accepting in payment for the drafts when sold no other money but silver. This is not in accordance with our view of the matter. It rather seems to us that by making this condition the sale of the drafts will be rendered less easy than otherwise, because many people will object to this mode of payment, and there is no call for it. Whenever silver becomes redundant it is because the whole volume of the currency has dropped into that condition, and any measures tending to reduce the amount of money, no matter of what description, will relieve the situation by putting a stop to the redundancy.

Another detail, which regards Mexico, need not be dwelt upon, since it has been fully elucidated in the course of our discussions. We asked ourselves how you would prevent enormous quantities of Mexican dollars circulating abroad from being offered in exchange for the new coin which you propose to issue, and so creating a circulation of these new coins far in excess of the home demand. We understood, however, that you mean to prohibit the importation of old Mexican dollars at some early period, and if this measure can be made effectual we readily admit that our objection is fully met.

As to the course you propose to follow, however, with regard to China we entertain some misgivings. Once more drawing your attention to what we have observed about the necessity of a determined and intelligent cooperation of the banks, we entertain strong doubts as to the possibility of making any arrangements for China work well unless a central bank be established in that country and so organized that its management be wholly withdrawn from political and other non-commercial influences. We submit this point to your consideration.

As to the question of the ratio between the value of the gold and silver coins to be adopted, we find it difficult to give an opinion.

Of course in supporting the ratio of 1 to 32, which you proposed, you do not mean to express any idea or to give any hint, however slight, about the ratio which should have to be adopted in the case of an international bimetallic union. We take this for granted, and therefore look upon the question as one of purely local interest. As such, however, it is highly important, inasmuch as by fixing the ratio either too high or too low great inconvenience might arise. A too high ratio might lead to an underestimation, a too low ratio to an exaggerated overestimation of the value of the silver coin, and in either case some harmful consequences would ensue.

We can not help thinking that of these two evils the latter is the one which should be chiefly guarded against. Not because the other

evil is not equally harmful, though harmful in a different way, for, indeed, the whole plan would practically turn out a failure if the gold value of the new silver coin rose to such a point that the new gold coin fell below its face value. In that case no stability of foreign exchanges would be obtained. The reason why special attention should be paid to the risk of overestimation is this: That, as we gather from your own communications regarding the conditions under which silver nowadays is produced, the production of that metal will probably go on increasing.

This means that a further decline in the gold price of that metal is not improbable, and in that event, if the ratio were fixed at too low a figure, the margin between the face value and the bullion value of the silver coins would become alarmingly great. Especially in China this might lead to the coining of what may be called "false good money" on a large scale.

We shall have little to say on your plan of obtaining more regularity in the purchases of silver for monetary purposes. Of course, if that object could be attained, this would to some extent mitigate the variations in the prices of silver on the New York and London markets. We can not but express our hope that your efforts in that direction may meet with a full success.

Before terminating this memorandum we ought to observe that, excepting the general agreement with the end your Commissions have in view of bringing about a greater stability in international exchange, the opinions here expressed do not bind our Government, but only the undersigned in their private capacity.

PIERSON.

ROCHUSSEN.

G. M. BOISSEVAIN.

THE HAGUE, *July 17, 1903.*

## VII. RESOLUTIONS ADOPTED IN GERMANY.

KONFERENZ ZWISCHEN DEN DELEGIERTEN DER VEREINIGTEN STAATEN VON AMERIKA, CHINA'S, MEXIKO'S UND DEN VERTRETERN DES DEUTSCHEN REICHS.

Folgende Resolutionen sind von der Konferenz einstimmig angenommen worden:

1. Die Einführung eines Goldvalutasystems in den Ländern mit Silberumlauf, bestehend aus Silbermünzen mit unbeschränkter gesetzlicher Zahlungskraft, aber mit einem festen Goldkurs, würde die Entwicklung dieser Länder erheblich begünstigen und ihren Handel mit den Goldwährungsländern fördern, sowie die Gelegenheit zu gewinnbringender Kapitalanlage in der ganzen Welt erweitern.

2. Die Einführung eines einheitlichen Geldumlaufs in China, bestehend aus Silbermünzen mit voller gesetzlicher Zahlungskraft, ist dringend erwünscht. Die Vorteile einer solchen Reform sowohl für China als auch für die Goldwährungsländer würden ganz ausserordentlich gesteigert werden, wenn es gelänge, den Kurs der Silbermünzen im Verhältnis zum Golde zu fixieren. Für die Erreichung des letzteren Zwecks erscheint es geboten, das die Prägung der neuen Silbermünzen nicht freigegeben wird, und das die chinesische Regierung zu Beginn der Reform alle diejenigen Massnahmen ergreift, welche ihr eine Einwirkung auf die ausländischen Wechselkurse ermöglichen.

3. Wenn auch in den Ländern mit Silberumlauf der Kurs der Sil-

bermünzen von dem Stande der nationalen Volkswirtschaft und ihren Beziehungen zu anderen Nationen abhängig sein wird, so ist es doch wünschenswert, das ein einheitliches Ausmünzungsverhältnis von Gold- und Silbermünzen in solchen Ländern bestehe, welche künftig eine Goldvaluta annehmen, und das dieses Verhältnis auf etwa 32 zu 1 festgesetzt werde, falls keine weiteren ernstlichen Veränderungen im Silberpreis eintreten.

4. Die Schwankungen des Silberpreises würden durch eine verständige Regelmässigkeit in den Silberkäufen der Regierungen zu Münzzwecken in gewissen Umfange eingeschränkt werden können. Eine solche Regelmässigkeit würde erwünscht sein und wird den einzelnen Ländern empfohlen, soweit deren Münzgesetzgebung und monetäre Bedürfnisse nicht entgegenstehen.

Dagegen wird zu diesem Zweck eine Aenderung der Münzgesetzgebung der Goldwährungsländer, insbesondere die Einführung des internationalen Bimetallismus, weder beabsichtigt noch für aussichtsvoll gehalten.

Ferner würde es im Interesse der Beständigkeit des Silberpreises erwünscht sein, wenn in den Ländern, in welchen die industrielle Verarbeitung von Silber einer Steuer unterliegt, diese Steuer aufgehoben oder ermässigt werden würde.

BERLIN, *den 23. Juli 1903.*

#### ERKLÄRUNG DER VERTRETER DES DEUTSCHEN REICHS.

Deutschland wird zunächst nicht in der Lage sein, seinen Silberbedarf für monetäre Zwecke durch Ankauf von Silberbarren zu befriedigen, da es nach seiner Münzgesetzgebung das zur Neuprägung von Reichssilbermünzen erforderliche Material den vorhandenen Talervorrat entnimmt, der für diesen Zweck noch für Jahre hinaus ausreicht, und da ferner der deutsche Silbergeldbestand zur Zeit den tatsächlichen Verkehrsbedarf um etwa Hundert Millionen Mark übersteigt.

In den deutschen Schutzgebieten besteht die Reichmark-Rechnung, ausser in Ostafrika und Kiautschou. Wenn die in den Resolutionen 1 bis 3 enthaltenen Vorschläge zur Ausführung gelangen, so dürfte es ratsam sein, bei den für diese Schutzgebiete etwa vorzunehmenden Silberankäufen tunlichst nach den in Resolution 4 Abf. 1 festgestellten Grundsätzen zu verfahren.

BERLIN, *den 23. Juli 1903.*

[Translation.]

#### VIII.—RESOLUTIONS ADOPTED IN GERMANY.

CONFERENCE BETWEEN DELEGATIONS FROM THE UNITED STATES OF AMERICA, CHINA, AND MEXICO AND REPRESENTATIVES OF GERMANY.

*Points on which the conference unanimously agree.*

1. That the adoption in silver-using countries of the gold standard on the basis of a silver coin of unlimited legal tender, but with a fixed gold value, would greatly promote the development of those countries and stimulate the trade between those countries and countries already possessing the gold standard, besides enlarging the investment opportunities of the world.

2. That a national currency for the Chinese Empire, consisting of

silver coins which shall be full legal tender throughout the Empire, is urgently desirable, and that the benefits of such a reform, both for China and for the gold-using countries, would be very much greater if a fixed relation between the silver unit and gold could be established. For the latter purpose it seems advisable not to introduce free coinage of the new silver coins and for the Chinese Government to take at the beginning of the reform all those steps which would allow her an influence on the rate of foreign exchange.

3. That, although the exchange rate of the silver coin in silver-using countries will be dependent on the economic situation and the relations with foreign countries, approximate uniformity is desirable in the coinage ratio between gold and the silver coins of such countries as may hereafter adopt a gold-exchange standard, and, if there are no further serious changes in the price of silver bullion, it is desirable that the coinage ratio between gold and the silver coins of those silver-using countries which may hereafter adopt the gold-exchange standard should be fixed at about 32 to 1.

4. That the fluctuations in the price of silver bullion would, to some extent, be prevented by reasonable regularity in the purchases of silver required by each government for actual coinage purposes and that such regularity is desirable, and is recommended to each country, subject to its monetary legislation and needs.

That, on the other hand, to this end a change of the monetary systems of the gold-standard countries, especially the establishment of international bimetallism, is neither intended nor considered practicable.

That, further, it would be desirable, as tending to promote the stability of the price of silver bullion, that in those countries in which taxes are levied on manufactures of silver such taxes should be abolished or lowered.

BERLIN, *July 23, 1903.*

*Declaration of the representatives of the German Empire.*

Germany is not at present in the position to satisfy its demand for coinage purposes by the purchase of silver bullion, because, according to its monetary system, it has, in the first instance, to use for recoinage the thalers in its possession, the supply of which will be sufficient for several years; besides, the present stock of silver coins exceeds the demand for circulation by about 100,000,000 marks.

In the German colonies the Reichsmark system is used, except in East Africa and Kiautschou. Should the propositions contained in the resolutions 1 to 3 be carried out, it would be advisable to act in the case of purchases of silver for coinage purposes in the colonies according to the principles laid down in resolution 4, section 1.

BERLIN, *July 23, 1903.*

IX.—OPINIONS OF PROFESSOR HELFFERICH, LEGATIONS-RAT OF THE COLONIAL DEPARTMENT OF THE IMPERIAL FOREIGN OFFICE, BERLIN.

With the propositions which were presented and supported by the Mexican delegates at the last session, the discussions of this Commission entered a new field. While heretofore in our conferences we have had under consideration the problem of the establishment of a gold system in lands with a silver circulation and with the fixing of a determined ratio between the gold and silver moneys in actual use, now the question has been placed before us whether and in what manner

a certain stability of ratio may be brought about between the metals, silver and gold. Since so interesting and so valuable material regarding this question has been furnished by the foreign delegates, and since so valuable critical opinions have been expressed by them, it will perhaps be agreeable to them if the question, considered especially in regard to its principal point, should be made the subject of a somewhat more general and detailed discussion by the German delegates.

Between the two problems (1) of fixing a parity of exchange between silver and gold countries and (2) bringing about a ration as stable as possible between the values of the two precious metals, there exists a certain although not absolute connection. Until a short time ago the fixing of a ratio between the values of the metals gold and silver, somewhat after the plan of an international bimetallic system, was generally looked upon as the only way in which, if at all, stable rates of exchange between gold and silver standard countries could be reached. The starting point of the present discussions appears to me to lie in this, that the stability of the rates of exchange between the gold and silver countries which is so desirable may be brought about even without the fixing of a ratio of value between the precious metals.

I can but recognize in this opinion which has been placed in the forefront of our discussions a great step in advance in the field of international monetary science, a step which finds an interesting analogy in the development of the national money systems. The task of holding in circulation in one and the same land and within one and the same money system gold and silver coins in a ratio to one another which shall be fixed once for all was also thought earlier to be as dependent upon the fixity of the value relation between the metals silver and gold, as up to a short time ago the maintenance of a stable rate of exchange between gold and silver lands has been considered to be so dependent.

According to the fluctuations in the values of the two precious metals sometimes the gold coins, sometimes the silver coins, had as bullion a slight value above their coinage value, and in these circumstances sometimes the coins of the one, sometimes those of the other metal disappeared from circulation. Only little by little, through the development and application of reasonable principles concerning the issue of silver coins, did it become possible to introduce silver coins in a gold monetary system and to give them a value in gold independent of all fluctuations in the price of silver bullion. In the same way there lies now already before us a number of examples, showing that certain lands with a silver circulation have succeeded in making the value of their silver coins in relation to gold independent of the fluctuations in the values of the two precious metals, and in maintaining this parity at a value which has been determined once for all. Just as with us, in Germany the silver coins were introduced as minor coins in our system of a national gold currency, so certain lands whose monetary circulation is mainly silver have been able to introduce their money into the general international system which rests upon the basis of gold. The most important examples are well known to this conference. The monetary system of India is worthy of the greatest consideration. There it has been possible, while maintaining the silver circulation, to raise the value of the silver rupee from 12½d. at the beginning of 1894 to 16d.; and after the year 1898 to maintain it at this rate, while the gold price of silver contained in the rupee has gradually sunk to nearly 8d. In this way it

is proved that the possibility exists of reaching the end which has been sought in the first instance by this Commission, namely, the fixing of the stability of the rates of exchange of the silver lands, even though there are strong fluctuations in the relative values of the metals gold and silver.

Nevertheless, it would be a mistake to deny entirely the significance of the greatest possible stability in the price of silver in the attainment of a fixed parity of exchange between gold and silver lands. A stable price for silver is rather to be looked upon as an important, even if not an indispensable support of the rate of exchange for silver lands, for the greater and the more changeable the difference is between the gold value which is given to the silver money and its own metal value the greater will be the danger that it will not be possible to maintain the rate of exchange which has been determined. Furthermore, one of the most important of those lands which would like to establish a fixed rate of exchange in gold for its silver money is especially interested through its national conditions of production in maintaining a value for silver which shall be not too low and which shall be as stable as possible—that is to say, the Republic of Mexico, represented in this conference. On account of the great significance which silver holds among the products, and especially among the export products, of Mexico the price which can be secured for silver must exercise an influence which is not to be underestimated upon the development of the industrial and financial power of the Mexican State, upon which again is dependent to a very great degree the ability of Mexico to give to its silver money a fixed gold parity.

On the other hand, it can not be overlooked that, together with the close relation which has been indicated above between the stability of the price of silver and the stability of the rate of exchange between gold and silver lands, there is also a certain conflict between these two aims. The stability of the rate of exchange in gold-standard countries can be attained for silver countries only on the basis of a limited coinage of silver. If the forces which are ruling the market indicate the tendency of a fall in the price of silver, the rate of exchange of the silver money could be protected against this tendency only by means of keeping the circulation of silver scarce; that is, fewer silver pieces should be coined than would be coined under a system of free coinage. Exactly in that way, however, the pressure of the silver supply upon a free market would be increased, and the tendency toward a fall in the price of silver would, in consequence, be strengthened. If, in accordance with the propositions which have been made in this Commission, the coinage of silver should be limited in those countries in which now the coinage of silver is still free, it must be recognized that in such a regulation there would doubtless be a factor which in itself would be likely to influence unfavorably the price of silver. Nevertheless it is, perhaps, to be expected that in connection with the reforms which have been proposed there are certain opposing forces which of themselves would work against this unfavorable influence.

Along this line I think especially that Mr. Creel is right when he expects a decided increase of the monetary use of silver in China from the introduction of silver coins of smaller denomination than the silver bars now in use, which are only suitable for payments of large amounts. Likewise there would doubtless be also an increase in the demand for silver for monetary and for industrial purposes in still other countries with the further increase of population, of wealth, and of commerce. In every instance I have gained the impression from

our discussions that even the representatives of Mexico, which has most interest in the price of silver, estimate the advantages of a stable rate of exchange so high that for the attainment of that end they would accept even a permanent lessening of the price of this most important product of their land. On account of the great benefit which the development of Mexican industry would receive through the fixing of a certain rate of exchange, it could only be looked upon as a wise policy that the fixing of the rate of exchange should be considered of the first importance even by the Mexican delegates, as they have repeatedly declared, and that the limitations of the variations in the price of silver should be considered a matter of secondary importance.

In passing now to the means by which the aims which have been treated in our discussions may be obtained, I consider it, in the first place, important to state that the fixing of the rate of exchange between lands with a silver circulation and those with a gold currency can be attained in the main only through measures to be taken by the silver lands themselves, especially by stopping the free coinage of silver and through wise administration of the right of coinage on the part of the governments; further, through the creation and support of gold reserves, which would give to the governments the possibility of exercising a direct influence upon the rate of exchange through the selling of gold bills. For all these measures the gold-standard countries could place at the disposition of the silver countries merely their moral support and good counsel. The practical carrying out of the arrangements can be an affair only of the silver countries themselves. Even for China there could be offered by the powers merely a certain directing and controlling assistance.

On the other hand, for the attainment of the aim which is second in importance, namely, the fixing of the price of silver bullion, the practical assistance of the gold-standard countries might be claimed to a further degree. On the part of the German delegates, as has been stated by his excellency, the president of the Reichsbank, the statement of the foreign delegates that no change in the monetary systems of the gold-standard countries and especially that no international bimetallic system is proposed has been unanimously received with satisfaction, as well as the further statement which Mr. Creel even to-day has again made emphatically, that it is not intended to ask the European states to make any purchases of silver for which there is not a real commercial need. The suggestions which have been made indicate rather only this, that a greater regularity than heretofore might be given to the acquirement of the silver bullion which is actually demanded for their monetary needs. The leading thought suggested by this proposition is, if I have rightly understood the matter, that the factors which have an influence upon the silver market have become in the course of the last few years decidedly more stable, with the single exception of the demand for silver on the part of the governments for the purposes of coinage.

The statement of the Mexican delegates regarding the methods of production and of sale of silver have been extraordinarily interesting, for there has been heretofore scarcely anything known in Germany regarding the very important changes which have taken place in this field during the last few years. The concentration of the silver supply in a few hands, the increase and the relative importance of the industrial uses of silver are, in fact, factors which do make it appear that a greater stability in the price of silver may be obtained than has existed during the last ten years. I can see, however, an unfavorable factor in the interesting fact that silver is continually

becoming more and more a by-product of copper, lead, and zinc. If 75 per cent of the entire production of silver is due entirely to the production of other metals, then the limitation of the production in the case of an unfavorable tendency of the silver market would scarcely be possible, as has been indeed acknowledged by the Mexican delegation, and the supply of silver could on that account not be readily checked. In any case, however, it is to be recognized as right that, through a regular and systematic procedure of the governments in the supply of their monetary needs, there might be brought about an influence new and of considerable importance which would lead us to expect a greater stability in the price of silver. A fundamental principle for every agreement regarding silver purchases must, nevertheless, remain, namely, that no silver should be bought for which there is no real commercial need, but that merely the purchase of the silver which is needed should be divided regularly over a somewhat larger space of time.

As to the purchases of silver which is not needed I am in full agreement with the opinion of the foreign delegates that no advantages could be expected from such purchases. Mr. Creel has rightly called attention to the great fluctuations in the price of silver which were brought about through the enactment and the repeal of the Sherman bill. As in this one case, so in the case of all silver purchases which exceed commercial needs, there must of necessity come a time when these purchases can no longer be maintained, and when for the maintenance of the parity of the silver coin silver must perhaps be brought in the market. Purchases of silver, therefore, which were not founded upon a real commercial need would not contribute to bring about stability in the silver market, but would rather, on the other hand, lead to continual unrest and insecurity.

For these reasons the German Empire must still for several years not be counted among those states which could enter into an agreement regarding regularity in their purchases of silver. As the president of the Reichsbank has explained in so clear a way, Germany has remained in the possession of a very large amount of silver for which its commerce has no use, since in the year 1879 it stopped its sales of silver. A large part of this amount has been absorbed in the meantime through the increase in population and the development of the industrial conditions of Germany, but even to-day there is still a remainder of about a hundred million of marks of superfluous silver money on hand, the absorption of which by commerce will not take place perhaps for ten years to come. Before Germany shall have come to this point of an equality between supply and demand new purchases of silver would be, of course, of themselves inadvisable. This is the condition of affairs as regards the German Empire.

With relation to the foreign possessions of Germany and to the German protectorates the conditions are as follows:

In all of the protected territories, except East Africa and Kiao-Chou (Kiautschou), there exists the German system with the German mark. This only unimportant demand for a medium of exchange is covered by the supply of imperial coins, besides which there is also found in circulation often French, English, and, in the South Sea, even American money. Kiao-Chou has no monetary system of its own, and even in the future must depend mainly on the Chinese system of money.

The monetary system of East Africa corresponds to the Indian monetary system, with the rupee as the unit. The monetary circulation is a small one, amounting, according to the highest estimates, to

about 10,000,000 rupees—that is, about 14,000,000 marks, or \$3,500,000. The annual increase of this monetary circulation can not be considered of any importance for the world's silver market. To be sure, the German Empire, especially in the immediate future, will have to undertake for its East African colony a larger coinage of silver than in ordinary times, because the Empire a short time ago acquired again the right of coinage for the East African protectorate from a private company, and because it is the intention to replace the Indian rupees, which to-day form still the larger part of the circulation in German East Africa, by German rupees.

This change must be divided, considering the territorial extent of the protectorate, over several years. I think that I can unquestionably state that so far as purchases of silver may be necessary for the change in the East African monetary system, the colonial administration will be ready to employ as far as is possible in the carrying out of these purchases the principles which have been laid down in the proposed resolutions. For this very small purchase of silver there will, indeed, in a still greater degree, be valid that principle which is valid for the entire system of the regulation of silver purchases by the different states, namely, that such a regulation can be only a little assistance, while the natural shaping of the relations of production and of the market must still be the most important factors for the stability of the price of silver.

#### X.—RESOLUTIONS ADOPTED IN RUSSIA.

I. The introduction in China of a uniform monetary system with ratio of 32 to 1—

(1) Will procure considerable advantages in international commerce, of which the foreigners who are in commercial connection with China will derive the first benefit;

(2) Will procure considerable advantages for silver-producing countries;

(3) Will procure considerable advantages also for the Celestial Empire on condition that the central Government succeeds in carrying out the reform to the end, and at any rate the cost of this reform will fall on the tax-paying population, as it will require considerable expenditure (which it would be difficult to define even approximately) for the purchase of new silver and especially for the formation of a gold reserve without which the stability of exchange can not be secured.

(4) It induces the suspension of free-silver coinage and puts the Chinese Government in the necessity of limiting to a certain degree the seigniorage of coinage in order to avoid the depreciation of the coin.

(5) In the course of the transitory period which, according to general acknowledgment, may last for a number of years, the conditions of interior monetary circulation will undoubtedly grow worse since the fluctuations in the interior change on those parts of China where the new system will first be introduced will certainly be more considerable than at present.

For these reasons, paying full tribute of esteem to the sound economical principles attesting the immutability of advantages connected with the improvement of the monetary circulation as soon as the reform of currency is put into force in China, we consider it never-

theless our duty to point out that the said reform will require on the part of China most considerable expenditure, together with a firm though at the same time cautious and deliberate policy, and can therefore be undertaken without risk only by a strong central power and after procuring the sufficient means.

II. The choice of a coinage ratio between gold and silver is a question which should be determined for each country by its own monetary needs and economic conditions, and which must depend in each case on one hand upon the profits from coinage and the risk of counterfeiting (increasing in proportion to the diminution of the amount of silver in the coin), on the other upon the risk of exportation of coin (in case of an excessive weight and the rise in the price of silver above par).

III. The regularity and unification of purchases of silver by different countries for coinage purposes can contribute to a desirable diminution of the fluctuations in the price of silver, but can not absolutely fix the price.

Finally, having considered the question raised by Messrs. Hanna and Jenks a few days after the last meeting as to whether their plan would have the approval if it were so amended as to mean a uniform national silver currency for China, issued on Government account, which should be given as soon as practicable a fixed parity with gold, Privy Councillor Pleske and Councillor of the State Vishnegradsky gave an affirmative reply.

#### XI.—RESOLUTIONS ADOPTED IN JAPAN.

(1) Whereas the chaotic condition of the currency such as now exists in China, namely, a condition under which there is no currency in the strict sense of the term, is highly disadvantageous, not to China alone, but also to those countries that have commercial relations with her, it is the earnest desire of the Commission that a definite and uniform currency system be speedily instituted and actually put into operation throughout the whole Empire of China, or, at all events, in some parts of it that are of commercial importance.

(2) If possible, it is desirable that the currency system mentioned above should be on a single gold standard.

(3) But, in view of the present condition of China, it is too much to expect that the currency reform can be started at once on a perfect system, and as it is considered highly disadvantageous to delay the said reform on that account, it is advisable to adopt the suggestions of the American Commission as a matter of expediency. But it must be admitted that the utmost skill and care are needed to overcome the great difficulties which necessarily accompany the operation of the system.

(4) It is considered desirable that the ratio of 32 to 1 between gold and the silver coins should be adopted for other silver-using countries that may hereafter adopt the gold standard.

(5) The Commission indorses the view of the American Commission on International Exchange that the fluctuations in the price of silver bullion would to some extent be prevented by reasonable regularity in the purchase of silver required by each government for actual coinage purposes, and that such regularity is desirable and is recommended to each country, subject to its monetary legislation and needs; but this indorsement is given with the understanding that no government

is expected by such indorsement to bind itself as to the practicability of the scheme proposed.

(Signed) Y. Sakatani, vice-minister of finance; F. Sugimura, director of commerce, department of foreign affairs; M. Morita, director of commerce and industry, department of agriculture and commerce; S. Matsuo, president of the Bank of Japan; S. Takahashi, vice-president, Bank of Japan; J. Soyeda, president, Industrial Bank; N. Soma, president, Yokohama Specie Bank; Baron Y. Shibusawa, president, First Bank; S. Hayakawa, chief director, Mitsui Bank; K. Mizumachi, director, finance bureau, department of finance; T. Tsukada, councillor, department of finance; K. Kanno, secretary, department of finance.

## XII.—REPORT OF THE MEXICAN COMMISSION ON INTERNATIONAL EXCHANGE ON THE MONETARY CONFERENCES OF LONDON, PARIS, THE HAGUE, BERLIN, AND ST. PETERSBURG.

[Translation.]

*To the honorable the Assistant Secretary of Finance and Public Credit.*

SIR: We have had the honor to attend, as delegates of the Mexican Government, the monetary conferences held at London, Paris, The Hague, Berlin, and St. Petersburg, and now have the satisfaction of submitting a brief report of the important work and resolutions of said conferences, reserving for the future the presentation of a more elaborate study of the same.

Before entering into any explanation about the monetary conferences which have just been held, it is important to make some historical remarks about the silver market and the influence it has had on the monetary system of Mexico.

### I.

In 1872 a movement in favor of gold monometallism was initiated in Germany, which resulted in the demonetization of silver in 1873. This policy was followed by other countries, which successively adopted the gold standard.

In the monetary conferences of Paris and Brussels efforts were made to restore bimetallism, but it was not possible to reach any agreement; and the current of public opinion, each day more strongly pronounced in favor of the gold standard, has extended this system to all the countries of Europe and to several of those of America. In the meantime the world's production of silver was increasing in a very marked manner owing to the facilities of transportation and to the new industrial methods applied to mining and metallurgy.

The production of silver in 1873 was 63,267,187 ounces, and in 1893 increased to 165,472,621 ounces. The consumption of silver did not increase in the same proportion, and an overproduction showed itself in the market, which on the one hand constantly reduced the price of silver, and on the other inspired great distrust as to the future of the metal.

In the United States efforts were made to reestablish the value of silver, first by the Bland Act, under which 291,272,018 ounces of silver were bought, and afterwards by the Sherman law, which caused the purchase of 168,674,682 ounces. This generous sacrifice on the part

of the United States proved to be useless, because the silver purchased, with the exception of a very small part, was not put in circulation. The result was an enormous accumulation and an artificial consumption of the metal, which could not continue for a long period and which was contemplated with distrust in the market.

Silver fell from  $59\frac{3}{16}$ d. in 1873 to  $35\frac{9}{16}$ d. in 1893, producing, as was natural, a very great disturbance in the value of silver money, which naturally followed silver bullion in its decline.

In 1893 the mints in India were closed, and in the same year the Sherman law was repealed, both events causing a new depression in silver, the value of which fell from  $35\frac{9}{16}$ d. in that year to  $21\frac{5}{16}$ d. in November, 1902.

The result of all these events was the creation of a universal feeling antagonistic to silver. Public opinion, both in the United States and in Europe, declared itself decidedly against this metal, and efforts have been made ever since to eliminate it from circulation.

Under these circumstances, the Mexican Government decided at the end of 1902 to invite the Government of China to study this problem and to send a confidential mission to Washington for the purpose of requesting the cooperation of the Government of the United States, in order to reach, after proper study of this economic question by commissions of several countries, some kind of an agreement, acceptable to all, by which greater strength and firmness would be given to the monetary systems which it might be found advisable to establish in the countries now having the silver standard, the whole problem to be studied under the general subject of international exchange.

## II.

The Government of Mexico has therefore been the one to take the initiative in this economic movement of such preeminent importance. In carrying out the measure above referred to Mexico has always had in view three points of capital interest, as follows:

I. To endeavor to establish a monetary system which might give stability to international exchange.

II. To protect as much as possible the mining industry.

III. To harmonize the new monetary system with the internal necessities of the country, so as to facilitate its further development and progress.

The study of the first two points was intrusted to the mission sent to the United States and to the Commission of International Exchange, which we have the honor to represent. As to the third point, which must be the principal basis of the system, the study thereof has been intrusted to a distinguished Monetary Commission, which is carrying on its important work at the capital of the Republic and is attracting the attention of the whole country.

The Mexican Government fully succeeded in its endeavors with China and the United States of America, the result in the latter country being the appointment of an American Commission on International Exchange, consisting of Mr. H. H. Hanna, Mr. Charles A. Conant, and Prof. Jeremiah W. Jenks, with whom we have labored in the five conferences held in Europe during the months of June, July, and August of the present year. It is gratifying to state here that the collaboration of the American Commission has been of the greatest importance to us, owing on the one hand to the high prestige of their Government and on the other to the intelligence and ability of

the Commissioners and their firm and cordial disposition to support, as they did, the initiative of the Mexican Government.

The latest fall in silver produced grave economic disturbances in all the countries having silver as a standard, and hence it was that efforts were simultaneously made in Mexico, China, the Straits, the Malay Confederation, the Philippine Islands, Siam, and Indo-China to change their monetary systems, the tendency being in all cases to establish the gold standard in one or another form. The movement was menacing to silver, and probably under its influence the metal fell to  $21\frac{5}{16}$ d. at the end of 1902, which was the lowest price ever reached.

Alarm and demoralization increased the danger, not only in the countries on the silver standard, whose money had irretrievably lost more than 60 per cent of its purchasing power, but even in the countries on the gold standard, which make use of large quantities of silver as subsidiary coin, whose systems were impaired by the enormous disparity between the legal value and the real market value of such money.

### III.

From these trying circumstances arose the initiative of Mexico, clearly explained in the following instructions received by us from the department of finance and public credit:

"1. The Mexican Government, in initiating this international action, does not intend to ask any government whose standard is gold to modify in any way its monetary system, nor does it wish to suggest any measure tending to maintain artificially the value in gold of silver bullion.

"2. Nor is it the purpose of the Government of Mexico to suggest the conclusion of treaties or conventions, or the holding of conferences where the representatives of several nations would consult simultaneously. It only wishes the members of the Commission, after having come in contact separately with the persons designated by each foreign government, to study and discuss with them general propositions setting forth the conclusions which they may have reached, reserving in all cases the liberty of action of the Mexican Government and of all the other governments in the premises, unless any one of said governments may wish to make, either directly or through diplomatic channels, declarations which may bind them with such restrictions as they may impose.

"3. The fundamental object of the Commission must be to secure the stability of the rate of exchange between silver-standard countries and gold-standard countries, without preventing thereby the nations which now use silver coin from continuing to coin it or from consuming it in the same or larger quantities, provided that its value with relation to gold becomes fixed.

"4. It is very interesting for us to know the opinion of those governments which have to contend, either in their own territory or in their colonies, with the same monetary problem as Mexico, in regard to the fundamental basis of the reforms they propose making and the means of carrying them into effect.

"5. The Commission shall seek to show the advisability of the acceptance, in a general way, of the same economic principles in all the new monetary laws to be enacted, and if possible of the same monetary relation between silver and gold, so as to secure for the monetary system to be adopted not only uniformity and homogeneity, but all the

prestige necessary for its acceptance by the people of the countries interested.

"6. In studying the means of obtaining the stability of international exchange two fundamental questions should be discussed, namely, the restriction of the production of silver and the suppression of the free coinage of silver. As to the former, Mexico can not make any concession which is not made also by each of the other silver-producing nations, and even in that case the Commissioners must not lose sight of the practical difficulties, perhaps insuperable, which may be found in the way of trying to enforce said restriction, because, among many other reasons, of the effect which that restriction might produce in the mining of other metals which are generally found combined with silver. In considering the second question it is necessary to take into account the direct and immediate injury which our miners would sustain, and the fact that such a sacrifice could not be demanded from them except upon the pledge that it would not be fruitless, and that the mining industry would obtain compensation in some other way.

"7. The protection due to the mining interests must be assured by the following means:

"A. By bringing to an end the depreciation and even hostility to which the silver is subjected in the majority of the nations of the world; and for this purpose the Commissioners shall furnish all the data and information upon production and consumption of silver in the world, and show thereby that there is no economic reason which would justify the adverse predictions as to the future of the metal.

"B. By endeavoring to obtain from the Governments regularity in the purchase of the quantity of silver required to meet the normal necessities of their monetary circulation.

"C. By calling attention to the irregularity existing in the legislation of some countries by which manufactured silver is heavily burdened, although those countries have ceased to be on a silver basis. The manufacture of articles of silver should not be burdened with heavier taxes than any other industry.

"D. By cooperating as strenuously as possible to improve the economic and monetary conditions of China.

"It is evident in this respect that whatever concession may be made to the Chinese Government by the nations which are entitled to a war indemnity will notably improve the conditions of the silver market; and the Commissioners should endeavor to obtain, for at least a certain number of years, a decrease in the annuity to be paid by China. The Commissioners will not, however, insist upon this if they find opposition, because the question is one intimately connected with the foreign policy of several nations. But the Commission should make constant effort to secure a steady increase in the consumption of silver in China by promoting the use of silver coin in every portion of her immense territory and by hastening the removal of the obstacles which oppose the substitution of a uniform silver coin for the present imperfect medium of exchange.

"8. The mission of the Commissioners shall be limited for the present to the action to be taken by them with the Governments of England, France, Holland, Germany, and Russia, and they are recommended to carry on their work in harmony with the American Commission, acting jointly with it, unless the said Commission should, in the exercise of its functions, take some step or advance opinions contrary to the instructions which the Commissioners have received or to the interests of Mexico. The Commissioners must, on their part

insist more than they upon the adoption of measures regarding the future of silver bullion, because it is to be feared that under the special conditions of American politics, as far as silver is concerned, the American Commission will not be as much at liberty as might be desired to recommend measures of general interest suggested by equity in favor of the white metal."

This was the programme which the department of finance and public credit laid down for the Commission on International Exchange, and within the limits thus defined we have carried on our work in five conferences which have taken place in London, Paris, The Hague, Berlin, and St. Petersburg.

In France and Russia it was decided that the conferences should adopt no resolutions, and that the respective Governments of those countries, basing their action on the reports of their Commissioners, would communicate to the Governments of Mexico and the United States their definite decision. We may expect, in view of the trend of the deliberations, that it will be favorable.

The conferences held at London, Berlin, and The Hague adopted various resolutions of importance, which, with slight variations, were as follows:

"I. That the adoption of the gold standard on the basis of a silver coin of unlimited legal tender, but having a fixed value in gold, would greatly facilitate the development of countries which at present are upon a silver basis and would promote their commercial relations with gold-standard countries, besides broadening the world's field for investment.

"II. That a national monetary system for the Chinese Empire, based on a silver coin which shall be legal tender throughout said Empire, is urgently to be desired.

"As soon as practicable the necessary steps should be taken for the establishment by China of a fixed ratio between her silver coin and gold.

"III. That an approximately uniform ratio between gold and silver in all those countries which shall in future adopt the gold standard is to be desired.

"IV. That if no material change occurs in the value of silver bullion, it is to be desired that the ratio between gold and silver in countries which accept the gold standard be fixed in the neighborhood of 32 to 1.

"V. That fluctuations in the value of silver bullion would be obviated to a certain extent by a prudent degree of regularity in the purchases of silver required by each Government for its currency needs, and that in consequence such regularity is desirable and might with advantage be adopted by each country, subject to the needs and convenience of its monetary system."

"These resolutions express the opinions of the commissions which took part in the conferences, opinions probably inspired by their several governments, and therefore all the more entitled to respect; but they are in no manner binding upon any of the nations, for such was not the nature of our mission, and just as the Government of Mexico has retained the fullest degree of freedom, so the governments of the countries visited by us have taken upon themselves no obligation.

"Notwithstanding this, it is of the utmost importance to Mexico to know the opinions of the highly respected commissions of the five nations which we have visited, and those opinions, added to those of the Mexican, American, and Chinese Commissions, provide in the

domain of scientific investigation a harmony of principles, many points of agreement, and a certain moral obligation among the representatives of the eight nations in question, many of them persons of a high official station, others being professors of political economy enjoying a world-wide reputation, and others occupying the very important positions of presidents of the Bank of France, the Imperial Bank of Germany, and the Imperial Bank of Russia.

#### IV.

“The resolutions adopted by the conferences and the papers presented by the delegates thereto will undoubtedly have served as the basis for the reports of the various commissioners to their governments, and this economic investigation and harmony of principles afford ground for hoping that the new monetary laws in countries which are at present on the silver standard will be adjusted on a common scientific basis, and that a silver coin with a fixed value in gold will be generally adopted, meeting the usages, necessities, and customs of those countries on the one hand, and, on the other, assuring an increasing consumption of the white metal, in both of which problems Mexico is keenly interested.

“In regard to China, opinion is unanimous in regard to the imperative necessity for the establishment of a national monetary system on the basis of a uniform silver unit. There is also uniformity of opinion as to the expediency of imparting to this silver unit a fixed value in gold, but the opinion of the conferees is divided as to the method to be adopted. Some recommend that from the beginning there should be established in the Chinese Empire a definite relation to gold or a fixed rate of exchange, whereas in other conferences the division of the reform into two periods has been recommended—first, a silver currency without relation to gold and, later, a fixed ratio between silver and gold.

“The latter suggestion is based on the opposition and difficulties which are presented by oriental civilization to all reform movements, and on the belief that the gradual evolution will be less perceptible and will be attended with fewer difficulties. In Russia and England, especially, the immediate establishment of the gold standard in China is regarded almost as impracticable.

“In this respect Mexico is advantageously situated, and whichever of the two solutions is adopted it will be highly favorable to her, though naturally from the point of view of the Chinese Empire it is to be hoped that it will adopt the more perfect monetary system and the one that may be most conducive to the development of her extensive and richly endowed territory.

#### V.

“In the monetary system that is recommended for the purpose of bringing about the fixity of international exchange the price in gold of bar silver and the value in gold of silver money are absolutely dissociated. The former may fluctuate in the market, whereas the silver money will always have a fixed value in gold. Hence will come stability of international exchange.

“This fixed value in gold will be maintained by the governments in the following manner:

“I. By the closing of the mints to the free coinage of silver.

“II. By the fixing of a ratio between gold and silver by the governments.

"III. By the legal-tender character of the currency for the payment and settlement of contracts of all kinds.

"IV. By reason of its being the only money in which duties and taxes will be paid, as it is supposed that there will be no gold in circulation.

"V. By the limitation of the quantity of silver money coined exclusively for the interior circulation of each country.

"VI. By the creation of reserve funds in gold in those countries in which the foregoing conditions are not sufficient to maintain the stability of international exchange."

The whole of this mechanism is based on the fixity of value in gold of silver money. The fluctuations in the price of bar silver should not, we repeat, disturb this system. The history of all countries which have adopted the gold standard and which continue to use silver money proves this fact, and the experience of India also confirms it.

Notwithstanding the foregoing observations, it is to be desired that the silver market should improve, and that a certain relative stability and a certain rise in the price of silver should be secured. Stability in the value of silver would be a very firm basis upon which the governments could establish and preserve, with more certainty and less difficulty, the relation between silver and gold.

A higher price of the white metal would be not only favorable for the mining industry, but would constitute a great protection against the danger threatening the stock of four thousand millions of silver dollars (\$4,000,000,000) which exists in the world and the enormously large quantity of the same metal in objects of art and other forms. For this reason, Mexico feels bound to interest herself in obtaining both results, protecting thereby the silver mining of her country.

## VI.

In addition to these studies, connected all of them with the fixity of international exchange, this Commission believes it to be its duty to make an investigation as complete as possible of the present conditions of production and consumption of silver, all of which is in accordance with instructions received from your Department.

We have the honor to submit, in a separate report, the study made by us on the subject, showing that in latter years a reaction very favorable to silver is taking place. In fact, there has been no considerable increase in the production of the metal. In 1893 the total production in the world amounted to 165,472,621 ounces of silver, and in 1901 the production was 170,998,573 ounces, which shows a very remarkable stability in the production.

The same conclusion does not apply to the consumption, as it has increased considerably both in the coinage of money, in industry, and in the market in India. Taking the consumption of 1890 to 1901, which embraces a period of twelve years, and comparing it with that of 1873 to 1890, we find an increase of 828,000,000 ounces, which gives an average increase of 69,000,000 ounces per year, distributed as follows:

	Ounces.
Coinage .....	30,000,000
Industry .....	29,000,000
India .....	10,000,000
Annual increase .....	69,000,000

It is satisfactory to us to state that this investigation has produced everywhere a very good effect, and we might even say a certain surprise, because the discredit of the white metal was such that governments and economists had not taken the trouble to form comparative statements so accurately itemized and complete. The eloquence of figures has asserted itself and caused the views of several persons with whom we have had an opportunity to discuss the problem to be changed.

## VII.

Some explanations should be made about a point of importance embraced in the resolutions of the conferences, namely, the one relative to the closing of the mints to the free coinage of silver.

According to the unanimous opinion of all the economists whom we have consulted, this basis is indispensable for the stability or fixity of international exchange. The free coinage of silver is the dividing of the silver bar into pieces upon which the seal of the Government is stamped as a guaranty of the fineness and the weight, without any obligation in regard to the value in gold. The pieces of silver, or, in other words, the coins, maintain invariably their market value, subject to rise and fall according to the current fluctuations in international exchange.

All the countries of the world which have given their silver coin a fixed value in gold have closed their mints to the free coinage of silver. Mexico can not deviate from that inevitable economic law. In order to secure a fixed value in gold for its silver coin it is a requirement *sine qua non* to close the mints to the free coinage of silver.

It is advisable to examine the effects which such a measure would produce. The mining industry has to suffer something when the market value of silver in gold is inferior to the ratio between silver and gold, which may be fixed by the monetary law. This sacrifice is inevitable, although it would be partially compensated by the lower cost of production on account of the relative fall in the price of all the foreign merchandise which is consumed in the mining industry, and because, also, the rise in wages which would be inevitable under the present system would then be suspended.

As to the price of silver and its market in foreign countries there can be no difference. For Mexico it is the same, exactly the same, whether silver be exported in the shape of Mexican dollars or in the shape of bullion. In either case the value in gold received for each kilogram of fine silver is the same. The Mexican peso does not derive its value from its coinage, nor is it exported as money. It is merchandise, and is now, and has been for many years, valued according to the amount of silver which it contains, and nothing more.

It is sufficient to consult the quotations of the market during a period of twenty years to convince ourselves that the price of silver in bars and that of the Mexican dollars has been at the same level, save with very rare exceptions of little importance. Whether the miner were compelled to sell his silver in bars or in the shape of Mexican dollars, the value obtained by him would be the same.

Much has been written about the prestige of the Mexican dollar in the markets of the East. This is an historical truth, and it is certainly satisfactory to Mexico that the Mexican coin has enjoyed such confidence; but this credit of our coin has not gone to the extreme of giving it more value than that of the silver which it contains. This

being true, it is the same for Mexico whether she coins or does not coin her silver.

In regard to the market, the fact is that silver in bars is purchased with more facility than silver dollars. One hundred millions of ounces troy of silver are sold annually in London, but the sales of Mexican dollars do not exceed \$10,000,000, which represents 8,000,000 ounces troy. In regard to China, it must be said that this Empire purchases also a greater quantity of silver bullion than Mexican dollars, and the same thing happens in the Far East. It must be said, further, that the Philippine Islands have their own coin, that the Straits and the Malay Confederation will very soon have their own national money, that the same thing will occur in Indo-China, and that the Chinese Empire itself is already taking the necessary steps to establish its own money. The market for the Mexican dollar is rapidly disappearing, and very soon its coinage will prove unnecessary, except for domestic circulation.

But this fact need not cause us alarm, because in China and elsewhere it is the silver contained in the dollar, and nothing more, which is purchased. For this reason, what most concerns us is the market for silver. We must take care that the consumption is not diminished, and that, if possible, it is increased. We believe that this will be the case if all the countries which are now on a silver basis continue to use silver as coin, and the consumption will be greater if the Chinese Empire establishes its own silver monetary system. With both these ends in view, the labors of the Commission of International Exchange have been conducted.

If the Government of Mexico adopts as the basis for its monetary system the conclusions approved by the five conferences, we shall have a currency of fixed value in gold for the interior circulation of our own country and stability of international exchange in all our transactions with foreign countries.

The monetary reform will impart to the country greater vigor and greater economic strength, and will enhance its credit and prestige in all the markets of the world. Both domestic and foreign capital will carry on its operations with tranquillity and confidence. The alarm which at present agitates capitalists, owing to the sharp changes in the value of our money on the market, causing discouragement and even demoralization, will disappear.

Throughout Europe and the United States it is believed that the monetary reform will attract to Mexico a vigorous current of foreign capital. It is thought that a new era of great prosperity awaits Mexico as a consequence of her monetary change. Everywhere the importance of this economic move is spoken of as the natural consequence and fruit of the laborious and patriotic administration of General Diaz, ably seconded in financial affairs by his honorable minister of finance, Sr. Lic. Don José Yves Limantour. The monetary reform is considered as the crowning glory of the eminently patriotic task of General Diaz, whose work is known, talked of, and esteemed in Europe in terms which must fill every Mexican heart with gratification and pride.

## VIII.

Before concluding this report we believe it to be our duty to express our feelings of gratitude to the governments of the countries which we have visited and to their delegates to the conferences of London, Paris, The Hague, Berlin, and St. Petersburg, as we have been every-

where the recipients of great attention and courtesy, which we have accepted as an honor and token of distinction to our country.

The conferences were presided over as follows:

In London, by Sir James Mackey, appointed by the Government of Great Britain to negotiate the last treaty with the Chinese Empire.

In Paris, by M. M. G. Pallain, governor of the Bank of France.

In The Hague, by Sr. Dr. N. G. Pierson, ex-minister of the treasury of Holland.

In Berlin, by His Excellency Doctor Koch, governor of the Imperial Bank of Germany.

In St. Petersburg, by His Excellency E. Edouard de Pleske, president of the Imperial Bank of Russia.

We are likewise grateful to the honorable members of the American Commission, who defended our common cause with brilliancy, intelligence, and energy, and who besides extended to us all kinds of personal attentions.

The assistance of the legations of Mexico was of great value. In placing ourselves under their flag we felt the warmth of home, received the benefit of their high standing, and pressed the loyal and generous hands of distinguished fellow-citizens.

This is, Mr. Minister, the résumé of our labors. We request you to be pleased to submit this report to the President of the Republic, expressing to him at the same time our feelings of gratitude for the honor which he was pleased to bestow upon us in intrusting to us such a delicate commission.

We express also to you, Mr. Minister, our especial gratitude and high consideration.

ENRIQUE C. CREEL.

LUIS CAMACHO.

EDUARDO MEADE.

PARIS, *August 20, 1903.*

APPENDIX D.

MONETARY POLICY OF MEXICO.

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I.—PRINCIPAL DOCUMENTS SUBMITTED TO THE BRITISH COMMISSION.

No. 1.

[Handed in June 3, 1903.]

1. Mexico has been on a silver basis since 1535.
2. The silver currency gave full satisfaction to Mexico until 1870, when the gold price of silver commenced to decline.
3. The fluctuations in the price of silver bullion have been followed by changes in the value of our currency, and since 1870 a new and unsatisfactory condition has existed, which has been going from bad to worse, with great accompanying evils, as the gold price of silver bullion has declined in the market.
4. The inconveniences of the silver currency have been more severe and more disastrous on account of the violent fluctuations in the gold price of silver bullion. When the price has been relatively steady and not too low, Mexico has adjusted her finances to such conditions, and under the influence of steady exchange at about 200 per cent the country was for some time prosperous and had a healthy development.
5. The very low value of our currency in relation to gold, and the violent fluctuations in exchange have injured Mexico in many ways, viz:
  - (1) The price of foreign goods has advanced with the decline in the gold value of our currency, but wages have not advanced in proportion, hence international commerce is threatened with paralysis.
  - (2) The amount of silver currency required to pay the interest and sinking fund on our gold foreign debt has been increasing every year and it has been difficult to regulate the budget of Mexico, unless by very careful provisions on the part of our Government and with great sacrifices. Lately Mexico passed a new law establishing a sliding-scale system as to the collecting of her customs, in order to counter-balance the disturbing fluctuations in exchange and facilitate the payment of the interest on her gold bonds.
  - (3) The railroads and other enterprises that have issued gold bonds are in the same critical conditions as the Government, and, although the healthy development of the natural resources of Mexico has increased the volume of business and the gross earnings of such enterprises, yet the profits have been consumed and destroyed by the advance in exchange.
  - (4) Some of the exports of Mexico, though apparently encouraged by low wages, have to meet in the market the competition of similar products produced under the same system of low silver wages in other

countries, and consequently the price has declined and the gold value is less in proportion to the weight, measure, and quantity of exports. In this way Mexico has not had the full advantage of the growth of its export business, which, though largely increased as to the quantity of goods exported, does not represent a large increase in its gold value.

(5) The working classes will suffer the consequences of the loss in the purchasing power of the Mexican dollar, until such time as the wages are advanced, and when this happens all of the arguments in favour of the so-called protection for home industries and exports will be destroyed by the rapid advance in the cost of production.

(6) Foreign capital—English capital investments being largely represented—is also suffering on account of the depreciation of the silver currency.

(7) On the whole, the property owners, the investors in industrial enterprises, and the holders of Mexican securities are greatly distressed on account of the fatal reduction of their capital which has followed the decline in the gold value of silver in the market.

6. The reason why we make an open statement as to the local conditions of Mexico, regarding the influence of silver currency, is because such conditions are common to other silver-using countries and establish the general outline and characteristics of the whole proposition.

7. Notwithstanding the discouraging factors mentioned in the preceding paragraph, Mexico has made remarkable progress during the last twenty years, and some people may believe and do believe that the vital forces of Mexico have been strengthened and encouraged by the low price of silver; but careful investigation shows that Mexico has advanced and developed its resources in spite of its depreciating currency, and as the natural consequences of a good Government, a long period of peace, the building of railroads, the creation of a banking system, and of other new factors of life and prosperity.

8. After an earnest and exhaustive study of her economic conditions, Mexico has thought it wise to propose a change in her monetary system with the object in view of giving steadiness to foreign exchange by fixing a steady gold value to a new silver currency.

9. The undertaking is one of very great responsibility, not only because of Mexico's home affairs, but also on account of the interests of other countries with whom Mexico has friendly relations and international commerce; and also because of the fact that the currency which is being issued by Mexico has been for a long period the currency of China and the various colonial possessions of the Far East.

10. For these reasons Mexico did not deem it proper to act independently, specially so because other silver-using countries have been agitated by the same evils and are recommending changes to be made in their monetary systems.

11. Such is the condition in China, in Siam, in the Philippine Islands, in the Straits Settlements, in the Federated Malay States, in French Indo-China, as well as other European possessions in Asia and Africa, and in some of the Central and South American Republics.

12. This being the case, Mexico has thought that it would be to the advantage of all countries concerned to exchange views, to study together the economic problems involved in this grand and far-reaching proposition, and, if possible, to come to some understanding as to what is the best to be done and under what procedure, system, and principles the change should be made.

13. With this object in view, Mexico invited China and both countries have asked for and secured the cooperation of the United States of America.

14. Mexico believes that the gold countries are very much interested in the stability of the monetary system of the silver-using countries on account of international commerce, international finances, and other factors common to every country, and in conformity to the comity of the nations of the civilized world.

15. The silver-using countries are consumers of the products of the gold countries to the extent of about \$600,000,000 gold per annum, and they are also debtors to the gold countries to an extent which aggregates billions of dollars.

16. The manufacturing industries of the gold countries are growing, and international commerce is the natural outlet, keeping always running the current of trade and prosperity and establishing the equilibrium of supply and demand.

17. In the case of Great Britain, her interests as to the future of silver-using countries is direct and indirect, but always large and important, both for the reason that some of her colonies are using silver, and also on account of her international commerce with every silver-using country of the world.

18. Furthermore, from a financial point of view, the whole proposition is of the greatest importance. It seems the perfection of the monetary system of the world, by improving the circulating medium of the silver-using countries, by establishing a universal gold unit standard, in which to transact safely and successfully the business of the world.

Silver will continue to be used in the gold countries as a useful subsidiary coin, and silver will be used in the silver-using countries under the control of each government in limited quantities, on the basis of the gold standard and with steady international exchange.

For this purpose, no change whatever is necessary in the monetary systems of the gold countries, and the work in hand is to perfect the monetary systems of the silver-using countries.

19. It is to be noted that our general views on the monetary system which we wish to discuss are distinct and radically different from the plans which were discussed by the several international monetary conferences, and, although we recommend the use of silver currency in the silver-using countries, such a system is based upon the principles of the gold standard, and, with due protection, to establishing and maintaining a steady international exchange.

20. The steadiness of the gold value of the new silver currency and of international exchange may be more easily and more substantially maintained by some understanding on the part of the interested countries as to the purchase of silver bullion, so as to regulate the market price within certain limits, which may neither encourage overproduction nor destroy the basis which may be accepted as a relation between silver and gold in the currencies of the silver-using countries.

21. The same unit of weight and of fineness might be desirable, and also a uniform rate of exchange represented by a steady gold value of the new silver coins at the ratio to gold which may be agreed upon.

22. The system which Mexico respectfully submits for consideration is in line with that which has been accomplished in India since 1893, and we are exceedingly pleased to notice that in several respects it is also in accord with the recommendations made by the Straits Settle-

ments Currency Committee in their report of March 17, 1903, which has just been published.

23. The fact that China is showing a keen interest in the establishment of a national currency system and in the adjustment of the finances of the celestial Empire adds greatly to the international importance of this most important economic problem which we have the honor to submit to your wise consideration.

24. Mexico understands that in order for China to establish a national monetary system it may be necessary for certain concessions to be made to China as regards the payment of the war indemnity. At the same time it has been considered wise that China should ask the cooperation of the powers in establishing and maintaining her national currency system.

25. Mexico has preferred to make a general statement of facts, and to show her willingness and great desire to act harmoniously with friendly powers in this international proposition, in which the interests of the two countries are common, and begs to ask for the privilege to discuss the subject in whatever way it may be agreeable to His Majesty's Government.

Respectfully submitted by the Commission of International Exchange of the Republic of Mexico.

LONDON, *May 28, 1903.*

No. 2.

[Handed in June 3, 1903.]

Before deciding to make a radical change in the monetary system of Mexico, its Government thought it wise first to seek the cooperation of the United States of America and China, in order to study, with other European Governments, such measures and plans as could be best devised and adopted to obtain, as far as possible, permanent stability in the cost of exchange in the silver-using countries.

The cooperation of the United States having been obtained, the two Commissions appointed by their respective Governments, and which are now present here, have the same object in view, viz, the adoption, after careful investigation and profound discussion with the European powers, of a general plan of measures acceptable to the gold and silver using countries, in order to secure the stability of exchange which, of course, is the primary and principal object.

We wish, however, to draw attention to the fact that Mexico, being the greatest silver-producing country in the world, is placed entirely on a different ground to any other nation; and, although the Government will most likely decide to adopt a gold standard with a silver currency, it, at the same time, can not be indifferent as to the future of silver, which is one of the important industries of Mexico. The Government is well aware of the serious steps which are being taken in adopting a gold standard with a silver currency as far as silver-mining industry is concerned; and while steadiness in the price of silver bullion is not entirely necessary to the adoption of a gold standard, yet it is a fact that certain connections do exist which should not be disregarded.

The Mexican Government would naturally be glad to see that the general plan adopted would be of such a character as to assure its success and, if possible, to increase the consumption of silver and to steady its market price within certain limits so as not to stimulate silver mining.

In making a change of the monetary system of Mexico from the silver standard to the gold standard it might be interesting to consider what influence, if any, such a change might develop in the price of silver bullion.

The argument is one of very great interest, because the fact that other silver-using countries are about to make the same change will establish a new general economic condition, which should be considered so far as its connections with the price of silver bullion.

If the silver-using countries should accept the gold standard and introduce the circulation of gold in the place of silver, the natural tendency would be to depress the value of silver very exceedingly and also to disturb the gold market on account of a new demand for gold.

If the silver-using countries under a new system continue to use silver currency, the consumption of silver should be substantially the same as under the free-coinage system.

In the case of Mexico, although she has been coining silver in large quantities, yet the home consumption has only been what was really needed to carry on the domestic business of the country, on an average of about 4,000,000 ounces per annum, or 5,000,000 Mexican dollars in the last ten years. The amount which was coined in excess was not absorbed by Mexico, but was exported to the Orient.

In fact, in the last seven years the amount of silver money coined in the Mexican mints has been reduced fully 30 per cent, and such a contraction has not interfered in any way with the price of silver bullion in the market.

The consumption of silver is what creates the demand, and whether Mexico is on the free-coinage system or on a limited system controlled by the Government, the consumption should be about the same, and consequently it should have no influence whatever on the price of silver in the market.

If on account of the new monetary system which Mexico is contemplating to establish, she would either have to reduce her own consumption of silver, or should have to place in the market larger quantities of silver by disposing of the silver currency now in circulation, there would certainly be a new factor with a tendency to depreciate the value of silver; but this not being the case, there is no reason why the fact that Mexico should accept the gold standard should have any appreciable influence on the market value of silver.

Under the same conditions, and so long as the other silver-using countries continue to use silver as the basis of their circulation, the price of silver in the market should neither be depressed nor encouraged substantially; but for other economic reasons of very great importance to maintain the stability of the new system it is very desirable that some agreement or understanding should be established with all of the interested countries, so as to steady the price of silver bullion in the market as much as possible.

In the present memorandum we will deal with this proposition not only for its significance as regards Mexico as a large producer of silver, but also for its fundamental principles as concerns the new monetary system which Mexico and other silver-using countries are contemplating to make.

1. It is advisable for the silver-using countries to continue with a silver currency, but on the gold-standard system, because this will be the easiest way to establish stability in exchange, and, at the same

time, not to disturb their present financial condition as regards their home industries, wages, and all of their economic structure, which has been built on the silver basis. Besides, the people of such countries will give their preference to silver.

2. In the gold countries silver will very likely continue to be used for subsidiary coins, but in larger quantities, so as to meet the demands of a growing population and of an increased volume of business.

3. There is also an increased demand for silver for industrial purposes. In 1901 the world's industrial consumption of silver aggregated 1,370,685 kilograms, as per Annex No. 1.

4. Silver being needed as a basis of currency in the silver-using countries, as a subsidiary coin in the gold countries, and everywhere for industrial purposes, establishes the fact of a natural demand and consumption for silver. We wish to deal with the proposition on these lines, and do nothing to influence the price by artificial means.

5. The product of silver in the world in 1901 was 174,998,573 troy ounces. The product for forty years previous can be seen in Annex No. 2.

6. It may be stated in the rough that on the average the consumption of silver is equal to the production, for the reason that at the present time there are no stocks of silver at any point in the hands of producers, dealers, or even speculators, and aside from such slight accumulations resulting from variations in price and consumption in the Far East is concerned, there has proved to be during the last few months not even the ordinary stock in trade. Taking the average for the past twelve years, from 1890 to 1901 inclusive, the consumption of silver in the arts can be estimated closely at 31,000,000 ounces. The Director of the United States Mint estimates the consumption in the arts for the year 1901 at 44,000,000 ounces. He has stated personally that he believes this estimate to be under rather than over for the reason that he can necessarily only hear from the more important consumers. Dealers in silver both in the United States and in London estimate that the consumption in the arts has doubled within the last three years, and is, without doubt, at the present time over 50,000,000 ounces.

The average coinage of silver in Mexico for the past twelve years, from 1890 to 1901, inclusive, has amounted to 18,000,000 ounces. Of this amount, 4,000,000 ounces per annum has been retained in Mexico as needed for the circulation, to take care of increased business, or have been hoarding or melting down. The remaining 14,000,000 ounces have been exported as Mexican dollars and been absorbed in the East. As they are constantly moving through the channels of commerce in the East from one port and one country to another, it is impossible to state at any one time what proportion of these 14,000,000 ounces was absorbed by any one country or port. Sufficient to know these coins have been in demand and are regularly absorbed.

The reports of the imperial maritime customs for the treaty ports of China for the twelve years from 1890 to 1901, inclusive, indicate a net import of bars and sycee amounting to over 81,000,000 haikwan taels, or an average of 8,500,000 ounces per annum. The net imports of silver into India for the nine years from 1893 to 1901, inclusive, as taken from the Indian official reports, amounted to nearly 310,000,000 ounces, or about 35,000,000 ounces per annum.

The coinage of British dollars shipped from India for use in the Straits Settlements, Hongkong, China, Federated Malay States, and Sumatra and other eastern islands for the five years 1897 to 1901,

inclusive—during which their use as legal tender was normal—was equivalent to about 123,500,000 ounces, or an average annual coinage of 25,000,000 ounces.

The averages shown above, most of them, averaged for the twelve years 1880 to 1901, inclusive, therefore, are as follows:

	Ounces.
In the arts.....	30,000,000
In India.....	35,000,000
British dollars.....	25,000,000
Mexican dollars.....	18,000,000
China.....	8,500,000
<b>Total.....</b>	<b>116,500,000</b>

The Director of the Mint at Washington estimates the average production of silver for these same years at something less than 160,000,000 ounces. This would leave 43,500,000 yearly to be absorbed in the coinage of the world outside of British and Mexican dollars and rupees. The report of the Director of the Mint at Washington indicates a total coinage in the world during the years 1895 to 1901, inclusive, as averaging 125,000,000 ounces per annum. If we deduct from these figures the coinage of British and Mexican dollars, Indian rupees, and the coinage of the United States from silver purchased under the Sherman Act, amounting in all to 80,000,000 ounces, we have an exact difference of 45,000,000 ounces as the coinage of the world outside of coinage of the silver countries mentioned above. This effects almost too close an agreement between production and consumption.

7. The consumption of silver has increased very materially and will probably continue to grow, for the following reasons:

- I. For the increasing population of the world.
- II. For the use in the arts.
- III. For the natural growth of business.
- IV. For the opening of new channels of trade in China and other countries.
- V. For the purchase of silver for the subsidiary coinage by the United States of America and other countries.
- VI. For the more extensive use of silver by the Central and South American republics.

8. It is interesting to note that, notwithstanding the large amount of silver purchased by the United States Government under the Sherman Act, extending over a little more than three years from August 14, 1890, to November 1, 1893, the general effect was to depreciate the price of silver. Fourteen days before the passage of the act the price of silver in London was  $47\frac{9}{16}$ d. per standard ounce, and the day the act was passed the price had advanced to  $49\frac{1}{4}$ d. On August 1 a still further advance had taken place, and silver was quoted at  $51\frac{1}{8}$ d. The advance continued until September 3, when the highest point was reached in London, namely,  $54\frac{5}{8}$ d. From this time forward there was a steady decline, so that when the act was repealed November 1, 1893, the market price of silver in London was about 30d. per standard ounce.

This result was doubtless due to the fact that the markets of the world had not believed either that the purchasing would continue long or at least that the advance in the price could be maintained. It was an accumulation of silver rather than the use of silver, and the higher the pile grew the more imminent became the danger of the inevitable fall and the greater the damage to be caused by the

expected fall. Other buyers of silver, not believing that the price was permanent, withdrew from the market. Speculators operated for a fall, and the silver coins of the world, being almost entirely on a bullion value, were purchased by dealers and shipped to the United States, where they were melted down into bullion. The silver coinage in circulation in the world is so enormous that an amount could be spared without any considerable injury, sufficient to equal the entire purchases under the Sherman Act.

9. Apparently the position of the silver market when the United States Government commenced to purchase for the Philippine coinage was different from that prevailing in connection with purchase under the Sherman Act.

One difference doubtless was due to the fact that the silver purchased under the Philippine act was known to be for actual coinage to be put into use; but, what was much more important, the sentiment of the world approved of an advance on the prices prevailing, and not only was there a demand for the silver coming onto the market, and for that reason no sales of coin were made, and other countries, like India and China, did not defer purchase, while, on the other hand, some countries, notably France, began to buy at the same time, although they had been out of the market previously for many months. The lesson apparently to be drawn from this outcome as compared with the result of the Sherman Act is that any considerable accumulation of silver or any method devised to advance or uphold the price of silver when it is not resulting from natural consumption is worse than useless.

At the beginning of the purchase of silver for the Philippines late in March, 1903, silver in London was quoted at about  $22\frac{1}{2}$ d. The advance in price was quite regular, and within six weeks had advanced to slightly over 25d., or, say, 10 per cent. During this time the total purchases made for the Philippine coinage was about 4,000,000 ounces, or, say,  $2\frac{1}{2}$  per cent of the actual production of the world. From this it will be seen that the advance either was not on account of this new purchase for the Philippine government, as the advance in price was entirely out of proportion to the amount so purchased, or else the balance between supply and demand must have been extremely sensitive.

10. While the product of silver increased from 89,175,023 troy ounces in 1883 to 153,151,762 troy ounces in 1892, in the last ten years the increase has been a good deal smaller. In 1901 the product was 174,998,573 ounces, and in 1902 not over 170,000,000 ounces. In the first ten years the increase in the respective years aggregated 63,976,739 ounces, while in the last nine years the increase was only 21,846,811 ounces, and if the report which we have received as to the production of 1902 is correct, the increase in the last ten years will very likely not be over 17,000,000 ounces.

11. The conditions as to the production of silver are radically different at the present time from those prevailing before the closing of the Indian mints and the great drop in the price which followed this action. The decrease in the production of silver from distinctively silver mines has been enormous, and it is believed at the present time not more than one-quarter of the world's production comes from this source. Had it not been for other developments in mineral production and metallurgical operations which have taken place during the last ten years, the supply of silver would long ago have forced much higher prices in order to supply the absolute needs

of the world for silver. The demand for and the production of copper has so enormously increased that from this source alone a very large production of silver is obtained. The largest single producer of silver in the United States is a distinctively copper mine. The cheapening of metallurgical processes has permitted of the working of ores, particularly those containing lead and gold in small quantities, to such an extent that from this source also a large proportion of the silver production of the world is obtained. The Broken Hills Proprietary Mine of Australia, a distinctively lead mine, is not only the largest producer of lead in the world, but also probably the largest producer of silver. At least 90 per cent, and probably 95 per cent, of all the silver produced in the United States is the product of lead and copper smelting, and the great increase in the production of silver in Mexico is entirely due to lead and copper smelting. Notwithstanding these facts, the actual production of silver of the world has remained remarkably steady during the past ten years, and advance information obtained from the Director of the Mint at Washington indicates that the production for the year 1902 will be about the same as that reported for the year 1898.

The cheapening of metallurgical processes referred to above has resulted in the growth of what is known as "customs smelters" in counter distinction to the smelting which was done more largely ten years ago in conjunction with each large producing mine. These customs smelters, located at convenient centers of transportation where the best metallurgical mixture can be obtained, have drawn to these points a very large proportion of the silver production of the United States and Mexico, and by natural selection those few smelters best located and most wisely managed have only survived the sharp competition of rapid growth through consolidations. The combined silver production of the United States and Mexico doubtless amounts to 110,000,000 ounces. Of these, 4,000,000 ounces is retained as Mexican dollars in the trade with Mexico, 14,000,000 ounces is exported to the Far East as Mexican dollars, leaving 92,000,000 ounces to come upon the markets of the world as silver bullion.

By means of the consolidations referred to above, these 92,000,000 ounces, with the possible exception of from 5 to 10 per cent, is sold by three companies more or less allied to one another. Should Mexico decide to cease the free coinage of silver, in all probability the Mexican Government will be the buyer and seller of that portion of their silver product which is now coined, so that four sellers under these conditions, and they all in harmony, will control at least 100,000,000 ounces per annum of the world's production, which is equal to all the silver that has been shipped to London, where the market price of the world is made.

From this it will be seen that there is now a condition existing entirely unknown previously in connection with the marketing of silver, which permits of a firmer grasp of affairs and regulation of the same, so far as selling is concerned, than ever before.

12. Such a grasp of the production and marketing of a product as is shown in paragraph No. 11, if existing in connection with almost any other natural produce—such as the food products, or cotton, wool, or silk—would doubtless bring about an advance in price and a more or less firm grasp of the whole situation, for the reason that food products and wearing apparel are necessities of life, whereas silver can not be considered such a necessity. So far as silver is consumed in the arts, the consumption is doubtless regulated by the price—both increasing or decreasing proportionately with the decrease or increase in the

price, but this consideration seems to affect only about one-third of the entire production of the world. The use of silver for coinage purposes is spasmodic and irregular, to say the least, and can not be counted upon in the markets of the world. Even if a country needs to increase its silver coinage it can easily remain out of the market for months and possibly for years. The general sentiment of the world, therefore, is so powerful in connection with this portion of the consumption that it absolutely controls the situation, and no combination of capitalists or corporations would be strong enough to hold out against such a sentiment and force a buying at a price not approved of. Such being the case, no effort has been made, or will be made, on the part of the large sellers of silver to withstand this sentiment, and there is therefore no power to counteract the natural inclination of the buyer to always endeavor to buy cheaper. On account of the large production of silver as a by-product not being cut off by a low price, this condition is likely to continue without any power to withstand it unless a change in the sentiment of the world as to the continued use of silver is effected through a more or less similar consolidation of the interests of buyers in maintaining a steady price at some agreed-upon equilibrium. This is the present tendency, but we should not lose sight of the fact that at times in the past very large buying has taken place on the part of one or more countries producing a sharp advance, and should the price of bullion by these means advance beyond the coinage ratio adopted by the several silver-using countries, it would result in an immediate denuding of the country of their circulating medium and greatly demoralizing their commerce. It is quite as necessary, therefore, to make some definite arrangement on the part of buyers to prevent an abnormal rise as it is to prevent a continued depreciation in the price of silver.

13. On the principles of the gold standard, it may appear that the governments might be indifferent to the low price of silver bullion, inasmuch as it will have no influence on the gold value of the silver currency. Such a theory, however, is not sound, because it would certainly be preferable if the commercial value of the silver coin was not very far apart from the legal value, because, under such conditions, the system would be more perfect and solid, as it is the case with the gold coins of the gold standard.

At the same time a large discrepancy in value increases the responsibility of the Government in maintaining the par steady value of exchange.

On the other hand, the low price of silver would be a great inducement for counterfeiting silver currency.

It should also be remembered that as silver is produced as a by-product with other metals, its exceedingly low price might interfere in great many cases with the mining for gold, for copper, and for lead, and disturb the market of all these metals, which represent such an important factor in the commerce of the world.

14. If the low price of silver is objectionable in connection with the silver currency, the high price of silver, beyond certain limits, would also prove to be dangerous.

Whatever ratio may be established, it should be important that the market price of silver bullion should be under the legal ratio, as otherwise the silver currency would be melted down, sold as bullion, and the circulating medium of each silver-using country would be disturbed.

A very high price for silver bullion would also have the tendency of encouraging silver mining and increasing the silver product so as to

determine an overproduction, which would develop a disturbing and dangerous element.

15. The danger of such violent changes up or down should be eliminated if possible.

16. It seems safe to assume that at the average price of silver bullion during the past ten years the production of the world would increase at about the same ratio as during the past ten years. It also seems safe to assume that at this price the consumption in the arts will continue to increase, and will soon, if in fact it does not even now, exceed one-third of the entire production. Another one-third, at least, of the world's production will doubtless continue to be needed in the Far East, where apparently under all circumstances trade will have to be continued with the enormous population of that section entirely in silver, so far as the circulating medium is concerned. Throughout the more civilized or better organized countries of the world silver will always remain a subsidiary metal, but with the increased population and increased wealth of the world this demand is also likely to increase. The United States Government has been supplying these subsidiary coins, amounting in weight to about 5,000,000 ounces yearly, from bullion purchased under the Sherman Act between 1890 and 1893.

For some time after the demonetization of silver in Germany this Government was a seller of silver bullion resulting from the melting down of its silver coins, and of late years a large coinage has been going on in Germany, as well as in France, Holland, and other countries, from bullion resulting from the melting down of large silver coins. This is a process which can not go on, of course, indefinitely in any country, and it may be that the time has even now arrived when these countries can well afford to discontinue the melting of their large silver coins.

If the above suggestion should not be thought to be sufficient to effect the desired result, perhaps other measures might be devised, such as the following:

On account of the scarcity of gold, it might be to the advantage of the more prosperous commercial nations to cease the coinage of gold in denominations lower than £1, or about its equal, and other nations could also, to advantage without doubt, replace small notes with a metallic coinage of silver. Through all of these means, and in fact by even a portion of them, the other one-third of the world's production can be, as it has been in the past, readily consumed, and if it was known that these nations would be willing to consume this amount more or less regularly at a price that should be considered a safe equilibrium, ceasing buying entirely if bullion could not be obtained at an upset price, it would doubtless be entirely feasible to reach an agreement with the large sellers of silver whereby an equilibrium could be obtained, and the demoralizing fluctuations of the past and both the dangers of abnormally high and abnormally low prices as set forth above could be obviated.

Such action might obviate the difficulties as to speculation and control of price, regarding which silver producers have felt more or less aggrieved in the past. The market in London is held by custom in so few hands that they have at least had the power to depress and at times advance prices for the advantage of their customers.

From one day to another the fixed price in London has changed very recently nearly 2 per cent, and when we consider that this means a variation of 2 per cent in all of the business transactions between gold and silver countries, we see what a tremendous responsibility is thrown

upon this small body—what a relief to them and to the commerce of the world if other plans could be adopted.

LONDON, *June 5, 1903.*

No. 3.

[Handed in June 10, 1903.]

*Further particulars with reference to the production and consumption of silver, together with the effect upon the mining industry in Mexico, should the gold basis be established, there and elsewhere, calling attention also to the influence upon the world's commerce of a continued further decline in the price of silver, giving reasons for the commercial nations taking the necessary action to counteract such further decline.*

1. There are many reasons why the tendency to continual depreciation in the price of silver should be counteracted by the gold standard commercial nations. These are as follows:

(1) Notwithstanding the steadiness and equilibrium during the past ten years between supply and demand, the price of silver declined nearly 40 per cent—from 35 $\frac{9}{16}$ d. to about 21d.

(2) It has already been shown that this result has been attained somewhat on account of the inability of silver sellers to withhold their product from the market and to the irregular or uncertain buying.

(3) It is evident, therefore, that the price of silver has been and will be regulated by other forces than those naturally governing the prices of the products of industry, and, reasoning from the past, there seems no reason why this decline, unless counteracted by some new forces, may not continue almost to an unlimited extent; certainly 10d. or 12d. per ounce is not an impossibility.

(4) All coinage of silver would cease, the prices of lead and copper would increase in order to bring out the production of these metals needed by the world and make up for the decline in the price of the silver contents of lead and copper ore, and the production at this low figure would be consumed very largely in the arts.

(5) It is often reasoned that a low price for necessities is an advantage, but when we consider the enormous supply of silver now in the world, which represents the savings and the money of so large a proportion of the world's population, it can be questioned whether an unnecessary decline in the value and stability of these securities and currencies can take place without great suffering and great universal commercial disaster.

(6) The Bank of France carries 1,125,000,000 francs in silver, valued at over 60d. per ounce. Would it seem possible that this capital could be reduced to less than one-fifth of its book value without the credit of this most important bank being questioned? If it is once questioned, the answer might be in the negative, and it will then be too late to do anything to counteract the appalling commercial results.

(7) The great banking systems of the Far East carry large proportions of their capital and reserves in silver, represented by silver assets, which have and must continue to suffer from the decline in the price of silver.

(8) The savings of centuries in India, China, and the Far East are almost entirely in silver, and in case of famine or commercial disaster these savings will be found to be almost destroyed.

(9) Political disturbances have taken place in the past with much less cause, and they are to be feared in the future, because it is plain that the buying capacity of the people of the East, in which the gold and commercial nations are so much interested, must be constantly more and more curtailed with the depreciation of silver, as the wealth and the wages suffer the loss in the purchasing power of the silver money.

(10) Should China be required by the Powers to pay the recent war indemnity on a gold basis, the further decline in the price of silver would make such a payment an absolute impossibility. The political complications arising from a failure on the part of China to pay the indemnity might be of the most serious nature.

(11) The policy as to further coinage of silver, not only in the United States, as mentioned by one of the American Commissioners at the meeting of June 5, but also by other countries, is likely to be decided in accordance with the probable tendency of price. Should the tendency continue downward, large coins will be melted and recoinced into smaller denominations, and bullion will not be purchased for this purpose, thus accelerating the decline.

(12) The capital of the citizens of the gold countries of the world invested in silver countries, and which amounts to several hundreds of millions of pounds sterling, has already suffered enormous losses from the continued decline in the price of silver, and these investments will continually become less and less valuable unless this tendency is counteracted.

(13) The advantages of a fixed exchange between silver and gold countries has been fully set forth in previous memoranda; but with the continued decline in the price of silver it would doubtless become almost impossible to maintain the ratio.

(14) The fall in the price of silver places in danger not only the coinage of the silver countries, but that of the Latin Union, the Scandinavian Union, and other gold countries which must be seriously weakened by such an extreme discrepancy between the commercial value of bullion and the legal value given to the coins in circulation.

2. Should Mexico establish a gold currency, its silver-mining industry will suffer. This fact is well known to the Mexican miners, who are naturally opposed to any change in the currency system. The great Bonanza mines, producing rich silver ores, are fast being worked out, and in fact but few are still being operated. A large proportion of the silver production of Mexico is now produced from mines of low grade, which can only be worked on account of cheap railway transportation and the facilities offered by customs smelters. The profit in many cases is not over \$1 a ton, and any advance in the cost of production will endanger this proportion of the silver-mining industry in Mexico.

3. As it is well known, the gold-standard system will increase the cost of production, and for this reason alone the production of silver in Mexico is likely to decrease, but if in conjunction with the increased cost there should continue to be a fall in the gold value of silver, the two factors together might be absolutely fatal and destroy one of Mexico's most important sources of prosperity.

4. This industry is now prosperous, and if Mexico should establish the gold standard it would be at a great sacrifice.

5. In memorandum No. 2, of June 5, 1903, it was clearly shown that the consumption of silver had kept pace with a slightly increasing production, coming exclusively from Mexico, but on the whole at a decreasing price.

If Mexico can be encouraged to place her currency system on the gold basis, the decrease in production of silver in Mexico to be expected would aid, together with a natural increase consumption, in steadying, or possibly somewhat advancing, its price.

6. The annexed tables give very interesting information as to the production of silver in the world in connection with silver mining in Mexico, and shows to what an extent the production of its silver mines may influence the silver proposition of the world:

(a) Table No. 1 represents the yearly figures during the past ten years of the production of silver in the world, exclusive of Mexico.

(b) Table No. 2 shows the production of silver of Mexico since 1878, and gives important information as to the silver-mining capacity of Mexico, which has grown from 19,500,000 ounces in 1878 to 56,944,000 ounces in 1902.

(c) Table No. 3 shows the increase in the production of silver in Mexico since 1893, when the mints of India were closed.

(d) Table No. 4 gives the average price of silver in the London market from 1893 to 1901, inclusive.

7. An examination of these tables is very interesting, because it shows that after 1893 the silver mining has been depressed and reduced in all of the gold countries, while, on the other side, the output of Mexico, under the free-coinage system, has been increasing steadily.

8. If Mexico establishes the gold standard, it is likely that the product of her mines will also be reduced, and it will act as a strong lever to steady the price of silver in the market, provided that other countries agree to establish a method for the purchase and distribution of silver.

9. If a real effort is made to steady the price of silver and to control it within certain limits, avoiding violent fluctuations, the monetary systems mentioned above will be secure, the whole financial conditions now existing in India will be continued, the financial condition of China may be improved very materially, the channels for international commerce will be widened, investments in silver countries will be safe and further investments will become profitable, and all of these factors will contribute to the prosperity of the gold commercial nations.

10. In order to bring about these important and far-reaching results, Mexico is willing to offer important contributions by sacrificing to a great extent one of her most important mining industries, and hopes, therefore, that it may be thought proper to give her in return the assistance which she is now seeking to steady the price of silver bullion.

What Mexico asks from other countries is a reasonable commercial proposition of common interest to all. She confidently believes that the results will be far-reaching and universal in their beneficence.

LONDON, *June 10, 1903.*

ANNEX NO. 1.—*Production of silver in the world, exclusive of Mexico, since the year 1893.*

Year.	Production.	Decrease with reference to 1893.	Year.	Production.	Decrease with reference to 1893.
	<i>Troyounces.</i>	<i>Troyounces.</i>		<i>Troyounces.</i>	<i>Troyounces.</i>
1893	122,062,527		1898	113,933,938	8,128,589
1894	118,870,721	4,191,806	1899	111,370,277	10,692,250
1895	122,151,886		1900	118,415,589	3,646,938
1896	109,026,637	13,035,890	1901	116,595,262	5,467,265
1897	110,376,216	11,686,311	1902	113,055,094	9,007,433

ANNEX No. 2.—*Production of silver in the Republic of Mexico.*

Year.	Production.	Year.	Production.
	<i>Troy ounces.</i>		<i>Troy ounces.</i>
1878 .....	19,516,043	1891 .....	32,903,572
1879 .....	19,750,486	1892 .....	37,006,652
1880 .....	21,652,329	1893 .....	43,410,094
1881 .....	22,971,454	1894 .....	45,739,673
1882 .....	22,975,131	1895 .....	45,349,074
1883 .....	23,234,041	1896 .....	47,934,733
1884 .....	24,905,577	1897 .....	50,044,866
1885 .....	26,108,093	1898 .....	55,121,315
1886 .....	26,879,719	1899 .....	56,967,176
1887 .....	29,493,097	1900 .....	55,175,775
1888 .....	30,934,101	1901 .....	58,403,311
1889 .....	32,489,641	1902 .....	56,944,906
1890 .....	30,468,071		

ANNEX No. 3.—*Increase in the production of silver in Mexico since 1893.*

Year.	Production.	Increase with refer- ence to 1893.	Year.	Production.	Increase with refer- ence to 1893.
	<i>Troy ounces.</i>	<i>Troy ounces.</i>		<i>Troy ounces.</i>	<i>Troy ounces.</i>
1893 .....	43,410,094		1898 .....	55,121,315	11,711,221
1894 .....	45,739,673	2,329,579	1899 .....	56,967,176	13,557,082
1895 .....	45,349,074	1,938,980	1900 .....	55,175,775	11,765,681
1896 .....	47,934,733	4,524,639	1901 .....	58,403,311	14,993,217
1897 .....	50,044,866	6,634,772	1902 .....	56,944,906	13,534,812

ANNEX No. 4.—*Average price of silver since 1893.*

	d.	Cents.		d.	Cents.
1893 .....	35	$\frac{9}{16}$ = 0.7803	1898 .....	26	$\frac{15}{16}$ = 0.5901
1894 .....	28	$\frac{13}{16}$ = .6347	1899 .....	27	$\frac{7}{16}$ = .6015
1895 .....	29	$\frac{13}{16}$ = .6540	1900 .....	28	$\frac{5}{16}$ = .62
1896 .....	30	$\frac{13}{16}$ = .6756	1901 .....	27	$\frac{3}{16}$ = .5959
1897 .....	27	$\frac{9}{16}$ = .6048			

No. 4.

[Paper handed in June 10, 1903.]

SOME SUGGESTIONS FOR THE PURCHASE AND DISTRIBUTION OF  
SILVER BULLION FOR MONETARY PURPOSES.

1. The following countries to express their willingness to purchase annually, as follows:

	Ounces.
Austria-Hungary .....	4,000,000
China .....	18,000,000
Cuba .....	1,000,000
France:	
For subsidiary coinage .....	} 7,000,000
For Indo-China, etc .....	
Great Britain:	
For subsidiary coinage .....	5,000,000
For India, Hongkong, Straits Settlements, and other British dependencies .....	25,000,000
	30,000,000
Germany .....	3,000,000
Japan .....	5,000,000
Mexico .....	4,000,000

	Ounces.
Russia .....	5,000,000
Spain .....	3,000,000
United States:	
For subsidiary coinage .....	6,000,000
For the Philippines—	
Three years, at 15,000,000 ounces (average) .....	} 10,000,000
Three years, at 5,000,000 ounces (average) .....	
	16,000,000
Total .....	96,000,000

2. The purchases to be made by the Bank of England and the Bank of France and such other banks with connections in the East as may be agreed upon.

3. The silver to be purchased monthly at the rate of about 8,000,000 ounces.

4. The purchase price not to exceed 28d., London delivery. Whenever silver is over 28d., purchases to be stopped.

5. Special purchases might be made by the banks at a price over 28d. if so authorized by some of the interested countries.

6. The several countries to purchase during each calendar year the total amount agreed upon, unless the amount can not be obtained at a price of 28d. per standard ounce or less.

In case purchases are suspended at any time for the above reason and the market price recedes before the close of the same calendar year, then the monthly purchases shall be increased to such an extent as to make the total purchases during the year equal to the amount agreed upon.

7. Should the selling bank be able to deliver silver to any purchasing country at a less cost than via London, then all savings in shipping expenses shall be for the advantage of the buyer.

8. The banks to charge 1 per cent commission to the seller of silver.

9. The agreement to be made for six years.

LONDON, *June 8, 1903.*

## II.—A STUDY OF THE PRODUCTION AND SALE OF SILVER BULLION.

### NEW MONETARY SYSTEM FOR THE SILVER-USING COUNTRIES.

#### I.

It is not our intention to open an academic discussion on the principles of bimetallism or monometallism, or to criticise in any way the gold-standard system.

All to the contrary, we accept the condition of things as it exists; we recognize the influence of the gold standard, extending from one country to another, and we realize that the silver-using countries are obliged to change their monetary systems, so as to give full protection to their own finances, in order to induce the investment of foreign capital, and also to facilitate their trade and financial transactions with other countries, by the stability of international exchange.

The silver-using countries will, in all probability and for internal reasons, continue to use silver coins, but with a fixed gold value on some similar system to that introduced in India in 1893.

Under this system, which rests on the principles of the gold standard, because gold is the unit of value, the price of the silver bullion becomes independent of the gold value of the silver coins.

The fluctuations in the gold value of the silver bullion will not influence the value of the silver coins, and the silver coins, having a fixed and steady gold value, establish at once the stability of international exchange.

The parity value with gold will be maintained (1) by making the new silver coins full legal tender; (2) by the fact of being the only money in which taxes and customs should be paid; (3) by the limitation of coinage, and if necessary, (4) by gold reserves.

## II.

As we have explained it, the gold price of the silver bullion will no longer be linked to the value of the silver coins; it will be independent in its commercial and legal functions, as much as the silver coins of England, Germany, or the United States.

At the same time it is to be remembered that silver is being used as a subsidiary coin by all of the gold-standard countries, and it will be used as a full legal tender by the silver-using countries under the system as it is being used at present.

The circulation of silver money in the world is about \$4,000,000,000.

For these reasons, and also on account of the importance of the mining industry, not only for silver, but for gold, lead, copper, and zinc, of which silver is a by-product, it will be interesting to make a careful investigation of the production and consumption of silver in the world, the reasons for its fall in price, and the probable prospects for the future.

With this object in view, we have prepared various tables which show where the silver is produced, where it is consumed, the amounts that have been employed for monetary purposes by each country, the recoinage, and the amounts consumed by the industries, the arts, and the bazar trade of India. We also show in the tables the growth of the consumption.

## III.—*Production and consumption of silver.*

There is a general belief, both in America and in Europe, that the production of silver is in excess of the consumption.

Everybody knows that silver has been falling in price since 1872, and the general impression is that this has been on account of an overproduction.

There was some good foundation for this line of thought previous to 1893, but in the last ten years the condition of things has changed somewhat, and at present it is not proper to say there is an overproduction of silver.

The period of overproduction was from 1873 to 1893. It will be noticed in Table No. 43 how the output of the silver mines of the world increased during this time from 63,267,187 ounces to 165,472,621 ounces.

The consumption did not increase at the same ratio, and a surplus of silver was accumulated in the United States under the Bland and the Sherman acts.

In 1893 the mints of India were closed to free coinage and the Sherman Act was repealed.

The influence of these two important measures was felt at once in the market. The average price of silver in 1893 was 35 $\frac{9}{16}$ d. per standard ounce, or 78 cents per troy ounce. In 1894 the yearly average price fell to 28 $\frac{1}{16}$ d., or 63 $\frac{1}{2}$  cents per troy ounce; but during the year

1894 silver was sold as low as 27d., a difference of over 31 per cent in one year.

This great drop in the price of silver in less than twelve months, together with the repeal of the Sherman Act and the closing of the mints of Bombay and Calcutta, were enough reasons to produce all over the world a great discouragement and a great dissatisfaction for silver.

This judgment against silver was strengthened and supported by the fact that its price continued to fall and for reason of the failure of the Monetary Conferences of Paris and Brussels and of the Wolcott Commission.

The silver agitation in the United States during two political campaigns also has contributed to depress the value of silver.

In fact, all of these events have made such a deep moral impression that at present silver is a subject of very little or no importance whatever to the business community of the two continents, and it is almost a disagreeable topic of conversation.

Nevertheless, the world continues to produce silver. The white metal is needed more than ever before for monetary purposes, and its use in the industries and in the arts is constantly growing.

The mining and metallurgy of silver have changed a good deal, and its connections with the production of other metals have become of great importance.

#### IV.—*Production.*

Since 1893 the production has been very steady, as will be noticed in Table No. 43. It is true that there has been an increase in the production, but only from 165,472,621 ounces in 1893 to 170,000,000 ounces in 1901. No other production of the soil or of industry has been so steady.

In Table No. 44 it will be noticed that the output of the silver mines, exclusive of Mexico, has been reduced from 122,062,527 ounces in 1893 to 112,053,667 ounces in 1901.

In the same period Mexico has increased her production from 43,410,094 ounces to 58,944,906 ounces. This was on account of the free-coinage system, which for the present encourages silver mining; but in other countries, where the cost of mining has to be paid in gold, the output of the silver mines has been reduced.

In fact, in the United States of America and other gold-standard countries a very large proportion of the mines where silver was the main product has been closed.

The experience of ten years shows that the production of silver has become steady, and the probabilities are that it will remain steady so long as the price is under 35d. per standard ounce.

#### V.—*Consumption.*

Silver is consumed: (a) For coinage, (b) for industrial purposes, (c) for bazaar trade of British India, and (d) in China.

The coinage consumption has been increasing steadily as the population and wealth of the world have increased.

Table No. 39 shows that the average of total coinage of the world per annum, during twenty-nine years, from 1873 to 1901, was 102,446,400 ounces. This includes recoinage.

The net amount of new silver consumed was about 72,000,000 ounces, estimating the recoinage at about 30,000,000 ounces per annum.

In Table No. 46 it is shown that the recoinage in 1889 was 39,971,156 ounces, and in 1900 it aggregated 38,384,514 ounces. Hence 30,000,000 ounces per annum is a rather conservative figure.

It will be noticed in Table No. 40 that the average total coinage of the mints of the world per annum during twelve years, from 1890 to 1901, was 103,718,856 ounces, exclusive of recoinage, which shows an increase in the world's consumption of silver for coinage of 31,718,856 ounces per annum.

The consumption of silver for industrial purposes has been steadily increasing. (See Table No. 38.)

The consumption in 1890 was 400,000 kilograms, and in 1901 it had grown to 1,370,685 kilograms, or about 1 to  $3\frac{1}{2}$ .

The average consumption per annum in twelve years was 28,147,825 troy ounces, and in 1901 it had increased to 44,066,522 ounces, as may be seen in Table No. 41.

It is believed that in 1903 the consumption of silver for the arts and for industrial purposes will be about 50,000,000 ounces.

When the mints of India were closed to free coinage in 1893 the general impression was that India would reduce very materially its purchases of silver, and this was one of the reasons why its market price dropped; but, to the great surprise of most people, India has consumed more silver since 1893 than before.

Table No. 9 B gives the net imports of silver for British India from 1893-94 to 1902-3, and the average per annum is 35,202,600 ounces. Of this amount, 11,000,000 was coined into rupees and 24,202,600 ounces were sold in the bazaar trade. This figure shows an increase of about 10,000,000 ounces per annum over and above the average amounts imported into India yearly during the twenty-five years previous to 1893.

As to China, we regret that the statistics should not be as complete as it would be desired.

Tables Nos. 13 A and 13 B, however, give some light on the subject. The net imports of bar and sycee silver in twelve years, from 1890 to 1901, show a yearly average of 8,500,000 ounces per annum.

As will be noticed in Table No. 13 B, the imports of silver dollars in haikwan taels in twelve years, from 1890 to 1901, aggregated 164,218,698 and the exports 166,971,867 haikwan taels. The exports to Hongkong in the same period amounted to 136,055,840 haikwan taels, and there is no record of the distribution of this amount from Hongkong over China, the Philippines, the Straits Settlements, etc., but it is a known fact that a great portion of this amount was carried again to China in the river and coastwise trade.

We know that most of the Mexican dollars, which have been exported in large quantities, as per Table No. 49, have gone to China, and when we remember the population of this great Empire, estimated at about 400,000,000, we must acknowledge that a consumption of from 12,000,000 to 18,000,000 ounces per annum is a conservative figure.

Table II gives the names, population, and stock of silver money in 36 countries of the world and also the average amount of new silver which they have consumed for coinage during twelve years, from 1890 to 1901.

In the last column of Table II is also given the amount of silver which the same countries will probably consume in the next five years.

As will be noticed, the amount of silver used for coinage per annum, exclusive of recoinage, aggregates 93,604,000 ounces. This statement is supported by 36 tables (Nos. 1 to 36), giving in detail the coinage and recoinage of 36 countries. The total amount agrees fairly well with that given for general coinage in Table No. 40 (93,634,905 ounces).

There are some few other countries consuming silver, whose coinage we have not been able to ascertain.

Table No. 37 gives an estimated consumption by Persia of 500,000 ounces per annum, and Table No. 42 by Santo Domingo of 34,561 ounces.

It is to be noticed in Table II that no coinage of new silver is shown for Belgium, Germany, Japan, and Turkey, because each of these countries has been recoinng their old stocks of silver, and as regards the United States of America, only the amount used for fractional currency is mentioned.

The silver dollars which have been coined in large quantities out of the old stock of silver purchased under the Sherman Act are not represented in the table, so as not to give any figures which might be misleading, as such coinage is not expected to continue.

The coinage not included in the table is as follows:

	Ounces
Belgium.....	50,000
Germany.....	1,993,411
Japan.....	7,764,262
Turkey.....	1,689,032
United States.....	10,083,951

Total per annum .....	21,580,656
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All of these countries sooner or later will have to consume their old stocks of silver, and some time in the future their demand for silver will be quite important and will help to strengthen the market.

The amount of 100,000,000 ounces estimated in Table II for the annual coinage of the world during the next five years is based upon the coinage of 36 countries during the last twelve years, and on the actual condition of things.

It may be thought, however, that some countries will coin less in the near future than in the past; but this may be compensated by the increased coinage of other countries, by the increasing consumption in the arts, by the absorption of silver on the eastern and western coasts of Africa, and by a new demand for China, if this country opens its mints to the coinage of a national silver currency.

In Table II we have estimated the annual coinage of the British Empire at 30,000,000 ounces for the next five years. This figure is exceedingly low.

As will be noticed in Table No. 4 B, the coinage of the British Empire for the last twelve years was 51,000,000 ounces per annum.

By condensing all of these figures we have the following results, shown in Table III:

Production:	Ounces.
Average, per annum, in twelve years.....	159,455,567
<hr/>	
Consumption:	
Coinage.....	93,604,000
Industries.....	28,147,825
Bazaar trade in British India.....	24,202,600
China.....	12,000,000
Persia, Santo Domingo, etc.....	1,000,000
Total.....	158,954,425

The only difference between production and consumption not accounted for is 501,142 ounces, which, although this can not be traced, it is known that it has been consumed, as for the past few years there has been at no time any accumulation of silver.

## VI.

As to the near future, we estimate the consumption of silver as follows:

	Ounces.
Coinage .....	100,000,000
Industries .....	50,000,000
Bazaar trade in British India .....	25,000,000
Total .....	175,000,000

These figures allow for an increased production of silver of over 4,000,000 ounces per annum.

It is certainly of the very greatest importance that the consumption of silver has grown so that it absorbs the entire production. In this connection it may be stated that our statistics are supported by the fact that there is no stock of silver bullion accumulated in any of the markets of the world.

Silver bullion is shipped to the London market from the smelters and refineries as fast as it is produced, with the exception of that portion which is sold for local consumption. The weekly shipments of silver are made to London with great regularity and aggregate 110,000,000 ounces per annum.

The silver is shipped with instructions to be sold on its arrival or before at whatever price it may bring in the market.

This is the existing and true condition of the London silver market. There is no other commodity the production and consumption of which is so well balanced and whose market is so well established. There is always a market for silver in London, and the surplus silver production of the world is sold there in very regular daily amounts.

## VII.

Under these favorable conditions the question is naturally asked: Why has silver quite constantly fallen in price?

In our opinion there are two main reasons:

I. Silver is produced largely as a by-product.

II. The methods of selling and buying silver have a depressing tendency.

Of the total production of silver, it is estimated that 130,000,000 ounces are produced as a by-product (see Table No. 1) and 40,000,000 ounces as a main product, of which last amount 25,000,000 ounces are produced in Mexico. In the remainder of the world only 15,000,000 ounces are produced from what might be called straight silver mines.

The consequence is that silver, being largely a by-product, has no fixed cost of production.

With the decline in the price of silver the other metals with which it has been produced have advanced in value in proportion, because mining can not be carried on at a loss.

This fact is shown in Tables Nos. 45 and 47.

Silver has fallen in price from an average of  $29\frac{1}{2}$ d. in 1885 to  $23\frac{1}{2}$ d. in 1902—a difference of about 30 per cent.

In the same period lead, copper, and zinc have advanced from 20 to 30 per cent.

How far this advance in the price of copper, lead, and zinc can be carried is a question; but it is rather doubtful whether the market will stand any higher prices. Certainly these high prices are to the detriment of very important industries requiring these metals for their raw material.

We must therefore recognize that silver, being largely a by-product, can not be regulated in price by the cost of production, and this is one of the several peculiarities of the silver problem.

This condition of affairs is very disadvantageous for mines whose main product is silver, because, having no compensation in the rise in value of other metals, the fall in the price of silver is a direct and total loss to the miner. For this reason almost all of the straight silver mines of the United States of America and other countries have been closed, and this explains why the production of silver, exclusive of Mexico, has been reduced to the extent of about 10,000,000 ounces per annum. (See Table No. 44.)

### VIII.—*Methods of selling and buying silver.*

The miners are the producers of silver, and it is to their interest to sell silver at the best possible price, but only to a small extent do they have any direct connection with the silver market of the world.

Most of the silver-bearing ores are sold to the smelters, as the improvement in metallurgy favors concentration of work. When the ore is sold to the smelter the London quotation the day of shipment is paid to the miner.

The business of the smelter is not to speculate in the price of silver, but to draw its profits from the smelting charges. The smelting companies are, therefore, always anxious to sell their silver the day of purchase, so as not to endanger their otherwise sure profits on account of the fluctuations in the market. Under these conditions, silver is hurried to London as fast as it is refined, and as the daily sales are made at whatever the market may be, there is little if any influence to withstand the natural desire of buyers to supply their needs at lower and lower prices.

At the same time, as it is known that silver is being shipped with great regularity, and as the history of the last thirty years shows an almost continual fall in the price of silver, it has been a somewhat safe speculation to sell "futures" at lower prices. This fact places the seller of "futures" in a position to be interested in the constant fall of silver and to work for it.

On the other hand, the largest buyers of silver are the governments—for coinage purposes. There is no regularity in their methods of buying, and there is always a feeling of uncertainty in the market as to the amount which they will buy and when they will buy it.

But perhaps the strongest depressing influence has been the experience of the last thirty years. Silver has fallen from 60 $\frac{5}{16}$ d. in 1872 to 23 $\frac{1}{8}$ d. in 1902. With four exceptions, in 1877, 1880, 1890, and 1900, the average price per annum shows a continual fall one year after another. This, of course, has produced a pressure of distrust, which, though of a moral character, has contributed largely to depress the value of silver.

## IX.

Against all of these difficulties the natural laws of supply and demand are now acting effectively to produce a reaction, and the silver market at present is very sensitive.

During the Sherman Act the purchase of about 168,000,000 ounces of silver was not enough to influence the market, and the price of silver continued to fall.

The market price of silver has advanced from  $21\frac{5}{16}$ d. in November, 1902, to  $25\frac{1}{2}$ d. in July, 1903, which represents a rise of 20 per cent in eight months. This seems to have been brought about by the investigation recently made as to the production and consumption of silver in connection with the proposed change in the monetary system of the silver-using countries, which have shown the true conditions.

The remarkably even balance between production and consumption, as discovered by these investigations and shown in the tables hereto attached, is liable to produce violent fluctuations in the market price of silver, up or down, as purchases on the part of governments may be deferred, or when several governments may decide to purchase at the same time.

The purchases of silver made for the Philippines have also contributed to raise the price of silver for reason of the sensitive conditions of the market, which have been explained.

## X.

Although, as we have explained, the proposed monetary system for the silver-using countries rests on the principles of making the gold value of the silver coin independent of the bullion value, yet everybody will appreciate the advantage of a steady price for silver bullion, not as a result of legislation, or through any one country buying more silver than it needs, nor by any artificial means, but simply by regulating necessary purchases to conform to the regularity of production.

This would especially be the case should China be able to adopt the proposed system, as the serious strain on its credit would be thereby greatly reduced.

When we refer to a steady price we do not mean a fixed price or any ratio between silver and gold. We are not dealing with the subject on the principles of bimetallism.

Our study of the silver-bullion situation is on account of its connections with the new monetary systems proposed for the silver-using countries, and our investigations have been along the lines of the natural production and consumption, and we expect and ask no privilege not granted by the economic laws of supply and demand.

The tables attached show that the coinage consumption of silver has constantly grown, and reason indicates that it will continue to increase in proportion to the growth of the population and wealth of the world. The industrial uses of silver are becoming greater and greater; and the settlement and growing commerce of the eastern and western coasts of Africa are now demanding a silver coinage.

If in addition to these facts the proposed monetary system is established in China, a new demand for silver is to be expected.

On the other hand, the production of silver is increasing very slowly, if at all, at present, and at any time a special occasion might arise to create a temporary shortage. This would cause a sharp rise in value,

and violent fluctuations, either up or down, are inconvenient and harmful in their influence on the proposed monetary systems.

It is very important to keep the value of silver under the ratio to be established, whether 32 to 1 or any other, because otherwise the silver coins will be melted and sold as bullion, and the countries will be deprived of their own money, the governments of their seigniorage, and new ratios will have to be enforced, all of which will disturb the financial conditions of the silver-using countries.

On the other hand, a very low price of silver encourages the illegal imitation or counterfeiting of the coins, a danger which becomes greater in the countries where the police system is not very vigorous, and greater still in the Far East, where the official protection of the coin would be most difficult.

Should the difference between the commercial value and the legal value of the silver coins become great, the weaker countries, who may not be able to carry large gold reserves, or whose credit may not be of sufficient strength, will find their system strained in cases of emergency.

For all of these reasons it would be desirable if the price of silver bullion could be steadied, although, as we have stated, this condition is not essential to the new monetary system about to be established in the silver-using countries.

How could this important result be accomplished? Is it not against the principles of political economy to try to regulate prices?

As to the first question, we believe that a system of regularity of purchases of silver, exclusively for monetary purposes by the governments of certain countries, or of all countries if possible, would have a tendency to steady the price of silver bullion.

For this purpose it is not necessary for any one government to bind itself to buy any fixed or specified amount of silver, nor is it wise or desirable that silver should be purchased and accumulated, as was done under the Sherman Act. Nothing which is artificial would produce satisfactory results.

As to the second question, it would certainly be impossible and unwise to try to control the price of any ordinary commodity in the market; but in the case of silver, so far as its monetary use is concerned, the buyers, the governments, are in a position to regulate their purchases and even to agree to stop them temporarily if silver should advance over a certain price, which would endanger the monetary systems of the silver-using countries. As shown above, they are equally interested in counteracting a continued decline.

If eight or ten of the great nations of the world should come to this understanding, it might be tried as a meritorious experiment. It has the advantage of placing no responsibility on any country.

Our aim has been to show the relations of the proposed monetary system for the silver-using countries with the silver market. Our investigation seems to prove the following:

1. That the production of silver has not increased materially since 1893.

2. That the consumption of silver has grown very substantially and much faster.

3. That it is important for the monetary systems of the silver-using countries that the price of silver bullion should be steadied.

4. That under existing conditions it is possible to influence the silver market in this direction without cost or hazard.

## III.—THE WORK OF THE COMMISSIONS ABROAD.

[From President Diaz's message of September 16, 1903—Mexican Herald, September 17, 1903.]

The measures instituted by the department of finance, both at home and abroad, in connection with the variations which the gold value of our money is constantly undergoing, aim at bringing about such stability as is possible in the rate of foreign exchange and at placing our currency on a basis which will enable it to satisfy the internal needs of the country and to facilitate the development of public wealth. The executive, in carrying out this programme, has also endeavored by every means compatible with the final object of the studies and efforts that have been entered upon to protect the national mining industry, to rectify the point of view which unfortunately was becoming more generally unfavorable to silver, and to give its aid to every measure capable of enlarging the sphere of applicability of that metal.

In approaching the governments of other nations the Government had no thought of entering into treaties or conventions nor of bringing about the holding of international conferences, such as on other occasions have been held with respect to similar questions. On this occasion the steps taken by the Government, with the support of the United States, have been addressed to bringing about an interchange of views with respect to the remedy that ought to be applied to the monetary situation of certain nations and colonies; to securing the maintenance of silver for currency purposes by countries which now have the silver standard, while imparting to it, when possible, a fixed value in relation to gold; to unifying the fundamental basis of the reforms that may be accepted, so that the solution may everywhere be surrounded by greater solidity and prestige, and, finally, to avoiding, within the scope of governmental action, the continued operation of the pernicious influences entailed by many of the chief factors of perturbation in the silver market.

It is gratifying to me to inform you that the steps taken by the Mexican mission abroad have been attended with favorable results, and that on all hands the executive has received indubitable proofs of the esteem enjoyed by this country, and of willingness to cooperate in the realization of the desires expressed by the Mexican mission and the mission which, at our request, was appointed for a similar purpose by the Government of the United States.

On the other hand, the grand commission appointed by the department of finance to study in Mexico, from the point of view of national interests, the various questions relating to the same problem has made great progress in its labors, and will soon be able to announce their final result and the opinion formed by the enlightened persons constituting the commission. It will then be the duty of the executive, with all the data which the inquiries conducted in Mexico and abroad will have placed at its command, to avail itself of those data; and if it considers a reform to be desirable, to propose suitable legislative measures to the chambers.

## APPENDIX E.

### DATA REGARDING THE MONETARY SYSTEM OF CHINA

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#### I.—THE PRESENT CONDITION OF THE CHINESE CURRENCY.

[From a report of Minister Conger to the Director of the Mint, dated Peking, September 24, 1902.]

The actual currency of the country consists of (1) copper cash, (2) silver and copper fractional currency, (3) silver bullion, (4) Spanish dollars, (5) Mexican dollars, (6) Hongkong dollars, (7) native dollars, and (8) paper, i. e., native and foreign bank notes.

I. Until quite recently, say ten or twelve years ago, the so-called "copper" cash—more properly brass cash—circular coins with a square hole in the middle, by which they are strung in groups of 100 or less, were the only native coins found in China. They were formerly made of copper, but during the present dynasty they have been alloyed with spelter, and have steadily decreased in size and quality from reign to reign. They are cast, not stamped, though some of the recently established mints, equipped with foreign machinery, have stamped a small quantity.

The gold and silver cash which may be bought in some of the treaty ports are unauthorized and are made privately for use as ornaments only. In Peking a large coin of the denomination of 10 cash, but really weighing no more than 2 or 3 ordinary cash, is in common use. Though nominally worth 10 cash, they pass for 20. It was the intention of the Government, originally, that each cash should have the value of one one-thousandth of a tael or ounce of silver, but owing to the debasement that has taken place a tael has at times been worth as much as 1,600 cash. The present exchange is about 1,200, though it varies from day to day. In Peking 50 large cash are placed on a string, which passes for 1,000, or a tiao. In other places a string usually consists of 98, passing for 100, though in every 10 strings it is allowable to use 3 of 95 each. The debasement of the coinage has led to the hoarding of the old copper cash of previous dynasties, as well as the better cash of the present dynasty, and these have been exported or melted down for use in manufactures. This, together with the closing of the mints and the steady increase of population, has caused a great scarcity of cash during recent years, and this scarcity has in part been supplied by the introduction of—

II. *Silver and copper fractional currency.*—Small silver pieces were brought a few years ago from Japan, Hongkong, and the Straits Settlements, but their circulation was confined to the larger treaty ports. After the establishment of a mint at Canton, with foreign machinery, the provincial government of Kuangtung began to issue small silver pieces of the denominations 5, 10, and 20 cents Mexican. Other provinces have followed this example, and in 1897, the last year for which I

have been able to secure a report, the four mints at Canton, Foochow, Wuchang, and Tientsin together issued subsidiary coins as follows:

50-cent pieces .....	214,796
20-cent pieces .....	31,852,571
10-cent pieces .....	17,892,931
5-cent pieces .....	66,921

These coins have gradually extended their circulation, but are not received at their face value. A dollar in Peking is exchanged for \$1 plus 30 to 40 large cash in subsidiary coins.

As may be seen from the inclosed edict of February 2, 1902, the minting of copper coins after the fashion of those used in the West was authorized. These are now coming into circulation in Peking. Each coin represents 5 large cash, equal to 100 ordinary, called a cent.

III. From time immemorial silver has been used in China as money, but until recently it has never been coined, and even now over the greater part of the Empire it is used only in lumps, or "shoes," whose value is determined by weight, color, and touch. This value is expressed in "taels," a word of foreign origin, derived from the Malay "tail," said to be equivalent in meaning to the Chinese "liang," i. e., "an ounce." This Chinese ounce is, generally speaking, equal to 1½ ounces avoirdupois. In practice, however, a tael or ounce of silver is found to vary greatly with locality.

The haikwan or customs tael contains 583.3 grains troy. The K'u-p'ing or treasury tael varies from 569.1 grains at Ningpo to 583.3 grains at Canton. The Tsao-p'ing varies from 558 to 573.1 grains. The Han-p'ing and Hsiang-p'ing, both used at Tientsin, are equivalent to 560 and 569 grains, respectively. The Shanghai tael weighs 560 grains. Every important trade center has at least one variety peculiar to itself. The fineness varies from 1,000 for the customs tael to 900 for several Canton taels.

IV. In the sixteenth century Spanish dollars were gradually introduced into China through commercial intercourse with the Philippines. Their circulation gradually extended over a good portion of the Empire. At present they have nearly disappeared, but there are some places, notably northern Anhui, where no other dollar will be accepted.

V. Spanish dollars were later followed by the Mexican, and this is the most common silver coin in use to-day. In Shanghai and vicinity, as well as along the lower Yangtze, this is practically the monetary unit. It is imported in large quantities every year.

VI. Not long since the Hongkong Government began the issue of a dollar of similar value to the Mexican, which finds some circulation in the southern provinces and at present to a large extent in Peking.

VII. The Chinese Government having authorized certain of the provinces to purchase foreign minting machinery, they began the coinage of a dollar of the same weight and fineness as the Mexican (nominally so), with the purpose of supplanting the latter. So far the scheme has met with poor success. The coins in some cases were not up to their face value. The people were distrustful and refused to accept them. Attempts were made to compel the banks to accept them at a fixed value in cash, but the banks simply closed their doors. These mints are located at Canton, Foochow, Nankin, Chungking, Tientsin, Moukden, and Kirin. As will be seen from the edict inclosed, only two of these are commended as having maintained a uniform standard.

In 1899, the last year for which figures are obtainable, the Tientsin mint coined 1,566,940 dollars. I have not been able as yet to secure reports from other localities. The Tientsin mint has, of course, been closed since the troubles of 1900, but is soon to be opened in charge of two of our own countrymen. These various dollars not only vary in value among themselves, but their relation to cash and the many varieties of the tael fluctuates from day to day. As will be noted from a perusal of the edict above mentioned, the Government proposes to receive the new dollars at a fixed rate, i. e., seventy-two one-hundredths of a tael (treasury).

The following table will show the steady decline of the value of both the tael and dollar in cash:

Year.	Comparative value in cash of—		Year.	Comparative value in cash of—	
	1 haikwan tael.	\$1 Mexican.		1 haikwan tael.	\$1 Mexican.
1892-----	1,400	1,050	1896-----	1,210	880
1893-----	1,370	1,030	1897-----	1,170	910
1894-----	1,300	970	1898-----	1,170	920
1895-----	1,270	950			

II.—THE BRITISH COMMERCIAL TREATY WITH CHINA.

The following is the correct version of the treaty, with annexes, which was signed at Shanghai on Friday, September 5:

His Majesty the King of the United Kingdom of Great Britain and Ireland and of the British Dominions beyond the Seas, Emperor of India, and His Majesty the Emperor of China, having resolved to enter into negotiations with a view to carrying out the provisions contained in Article XI of the final protocol signed at Peking on the 7th of September, 1901, under which the Chinese Government agreed to negotiate the amendments deemed useful by the foreign governments to the treaties of commerce and navigation and other subjects concerning commercial relations, with the object of facilitating them, have for that purpose named as their plenipotentiaries, that is to say:

His Majesty the King of Great Britain and Ireland, His Majesty's special commissioner, Sir James Lyle Mackay, knight commander of the Most Eminent Order of the Indian Empire, a member of the council of the secretary of state for India, etc.

And His Majesty the Emperor of China, the Imperial Commissioners Lü Hai-huan, president of the board of public works, etc., and Shêng Hsüan-huai, junior guardian of the Heir Apparent, senior vice-president of the board of public works, etc.

Who, having communicated to each other their respective full powers and found them to be in good and due form, have agreed upon and concluded the following articles:

ARTICLE I.

Delay having occurred in the past in the issue of drawback certificates owing to the fact that those documents have to be dealt with by the superintendent of customs at a distance from the customs office, it is now agreed that drawback certificates shall hereafter in all cases

be issued by the imperial maritime customs within three weeks of the presentation to the customs of the papers entitling the applicant to receive such drawback certificates.

These certificates shall be valid tender to the customs authorities in payment of any duty upon goods imported or exported (transit dues excepted) or shall, in the case of drawbacks in foreign goods reexported abroad within three years from the date of importation, be payable in cash without deduction by the customs bank at the place where the import duty was paid.

But if, in connection with any application for a drawback certificate, the customs authorities discover an attempt to defraud the revenue, the applicant shall be liable to a fine not exceeding five times the amount of the duty whereof he attempted to defraud the customs, or to a confiscation of the goods.

## ARTICLE II.

China agrees to take the necessary steps to provide for a uniform national coinage which shall be legal tender in payment of all duties, taxes, and other obligations throughout the Empire by British as well as Chinese subjects.

## ARTICLE III.

China agrees that the duties and likin combined levied on goods carried by junks from Hongkong to the treaty ports in the Canton Province and vice versa shall together not be less than the duties charged by the imperial maritime customs on similar goods carried by steamer.

## ARTICLE IV.

Whereas questions have arisen in the past concerning the right of Chinese subjects to invest money in non-Chinese enterprises and companies, and whereas it is a matter of common knowledge that large sums of Chinese capital are so invested, China hereby agrees to recognize the legality of all such investments past, present, and future.

It being, moreover, of the utmost importance that all shareholders in a joint stock company should stand on a footing of perfect equality as far as mutual obligations are concerned, China further agrees that Chinese subjects who have or may become shareholders in any British joint stock company shall be held to have accepted, by the very act of becoming shareholders, the charter of incorporation or memorandum and articles of association of such company and regulations framed thereunder as interpreted by British courts, and that Chinese courts shall enforce compliance therewith by such Chinese shareholders, if a suit to that effect be entered, provided always that their liability shall not be other or greater than that of British shareholders in the same company.

Similarly the British Government agree that British subjects investing in Chinese companies shall be under the same obligations as the Chinese shareholders in such companies.

The foregoing shall not apply to cases which have already been before the courts and been dismissed.

## ARTICLE V.

The Chinese Government undertake to remove within the next two years the artificial obstructions to navigation in the Canton River. The Chinese Government also agree to improve the accommodation for shipping in the harbor of Canton and to take the necessary steps to maintain that improvement, such work to be carried out by the imperial maritime customs, and the cost thereof to be defrayed by a tax on goods landed and shipped by British and Chinese alike according to a scale to be arranged between the merchants and customs.

The Chinese Government are aware of the desirability of improving the navigability by steamer of the waterway between Ichang and Chungking, but are also fully aware that such improvement might involve heavy expense and would affect the interests of the population of the provinces of Szechuen, Hunan, and Hupeh. It is, therefore, mutually agreed that until improvements can be carried out steamship owners shall be allowed, subject to approval by the imperial maritime customs, to erect, at their own expense, appliances for hauling through the rapids. Such appliances shall be at the disposal of all vessels, both steamers and junks, subject to regulations to be drawn up by the imperial maritime customs. These appliances shall not obstruct the waterway or interfere with the free passage of junks. Signal stations and channel marks where and when necessary shall be erected by the imperial maritime customs. Should any practical scheme be presented for improving the waterway and assisting navigation without injury to the local population or cost to the Chinese Government, it shall be considered by the latter in a friendly spirit.

## ARTICLE VI.

The Chinese Government agree to make arrangements to give increased facilities at the open ports for bonding and for repacking merchandise in bond, and, on official representation being made by the British authorities, to grant the privileges of a bonded warehouse to any warehouse which it is established to the satisfaction of the customs authorities affords the necessary security to the revenue.

Such warehouses will be subject to regulations, including a scale of fees according to commodities, distance from custom-house, and hours of working, to be drawn up by the customs authorities, who will meet the convenience of merchants so far as is compatible with the protection of the revenue.

## ARTICLE VII.

Inasmuch as the British Government afford protection to Chinese trade-marks against infringement, imitation, or colorable imitation by British subjects, the Chinese Government undertake to afford protection to British trade-marks against infringement, imitation, or colorable imitation by Chinese subjects.

The Chinese Government further undertake that the superintendents of northern and of southern trade shall establish offices within their respective jurisdictions, under control of the imperial maritime customs, where foreign trade-marks may be registered on payment of a reasonable fee.

## ARTICLE VIII.

## PREAMBLE.

The Chinese Government, recognizing that the system of levying likin and other dues on goods at the place of production, in transit, and at destination, impedes the free circulation of commodities and injures the interests of trade, hereby undertake to discard completely those means of raising revenue, with the limitation mentioned in section 8.

The British Government in return consent to allow a surtax in excess of the tariff rates for the time being in force, to be imposed on foreign goods imported by British subjects, and a surtax in addition to the export duty on Chinese produce destined for export abroad or coastwise.

It is clearly understood that after likin barriers and other stations for taxing goods in transit have been removed no attempt shall be made to revive them in any form or under any pretext whatsoever; that in no case shall the surtax on foreign imports exceed the equivalent of one and a half times the import duty leviable in terms of the final protocol signed by China and the Powers on September 7, 1901; that payment of the import duty and surtax shall secure for foreign imports, whether in the hands of Chinese or non-Chinese subjects, in original packages or otherwise, complete immunity from all other taxation, examination, or delay; that the total amount of taxation leviable on native produce for export abroad shall under no circumstances exceed  $7\frac{1}{2}$  per cent ad valorem.

Keeping these fundamental principles steadily in view, the high contracting parties have agreed upon the following methods of procedure:

SECTION 1. The Chinese Government undertake that all barriers of whatsoever kind, collecting likin or such like dues or duties, shall be permanently abolished on all roads, railways, and waterways in the eighteen provinces of China and the three eastern provinces. This provision does not apply to the native custom-houses at present in existence on the seaboard or waterways, at open ports, on land routes, and on land frontiers of China.

SEC. 2. The British Government agree that foreign goods on importation, in addition to the effective 5 per cent import duty, as provided for in the protocol of 1901, shall pay a special surtax equivalent to one and a half times the said duty to compensate for the abolition of likin, of transit dues in lieu of likin, and of all other taxation on foreign goods, and in consideration of the other reforms provided for in this article; but this provision shall not impair the right of China to tax salt, native opium, and native produce, as provided for in sections 3, 5, 6, and 8.

The same amount of surtax shall be levied on goods imported into the eighteen provinces of China and the three eastern provinces across the land frontiers as on goods entering China by sea.

SEC. 3. All native custom-houses now existing, whether at the open ports, on the seaboard, on rivers, inland waterways, land routes, or land frontiers, as enumerated in the hu pu and kung pu tse li (regulations of the boards of revenue and works) and ta ch'ing hui tien (dynastic institutes), may remain. A list of the same, with their location, shall be furnished to the British Government for purposes of record.

Wherever there are imperial maritime custom-houses, or wherever such may be hereafter placed, native custom-houses may be also established, as well as at any points either on the seaboard or land frontiers.

The location of native custom-houses in the interior may be changed as the circumstances of trade seem to require, but any change must be communicated to the British Government, so that the list may be corrected. The originally stated number of them shall not, however, be exceeded.

Goods carried by junks or sailing vessels trading to or from open ports shall not pay lower duties than the combined duties and surtax on similar cargo carried by steamers.

Native produce, when transported from one place to another in the interior, shall, on arrival at the first native custom-house after leaving the place of production, pay duty equivalent to the export surtax mentioned in section 7.

When this duty has been paid a certificate shall be given, which shall describe the nature of the goods, weight, number of packages, etc., amount of duty paid, and intended destination. This certificate, which shall be valid for a fixed period of not less than one year from date of payment of duty, shall free the goods from all taxation, examination, delay, or stoppage at any other native customs-houses passed en route.

If the goods are taken to a place not in the foreign settlements or concessions of an open port, for local use, they become there liable to the consumption tax described in section 8.

If the goods are shipped from an open port, the certificate is to be accepted by the custom-house concerned, in lieu of the export surtax mentioned in section 7.

Junks, boats, or carts shall not be subjected to any taxation beyond a small and reasonable charge, paid periodically at a fixed annual rate. This does not include the right to levy, as at present, tonnage (chuan chao) and port dues (chuan liao) on junks.

SEC. 4. Foreign opium duty and present likin—which latter will now become a surtax in lieu of likin—shall remain as provided for by existing treaties.

SEC. 5. The British Government have no intention whatever of interfering with China's right to tax native opium, but it is essential to declare that in her arrangements for levying such taxation China will not subject other goods to taxation, delay, or stoppage.

China is free to retain at important points on the borders of each province—either on land or water—offices for collecting duty on native opium, where duties or contributions leviable shall be paid in one lump sum, which payment shall cover taxation of all kinds within that province. Each cake of opium will have a stamp affixed as evidence of duty payment. Excise officers and police may be employed in connection with these offices, but no barriers or other obstructions are to be erected, and the excise officers or police of these offices shall not stop or molest any other kinds of goods or collect taxes thereon.

A list of these offices shall be drawn up and communicated to the British Government for record.

SEC. 6. Likin on salt is hereby abolished, and the amount of said likin and of other taxes and contributions shall be added to the salt duty, which shall be collected at place of production or at first station after entering the province where it is to be consumed.

The Chinese Government shall be at liberty to establish salt-reporting offices, at which boats conveying salt which is being moved under

salt passes or certificates may be required to stop for purposes of examination and to have their certificates viséd, but at such offices no likin or transit taxation shall be levied and no barriers or obstructions of any kind shall be erected.

SEC. 7. The Chinese Government may recast the export tariff with specific duties, as far as practicable, on a scale not exceeding 5 per cent ad valorem; but existing export duties shall not be raised until at least six months' notice has been given.

In cases where existing export duties are above 5 per cent they shall be reduced to not more than that rate.

An additional special surtax of one-half the export duty payable for the time being, in lieu of internal taxation and likin, may be levied at time of export on goods exported either to foreign countries or coastwise.

In the case of silk, whether hand or filature reeled, the total export duty shall not exceed a specific rate equivalent to not more than 5 per cent ad valorem. Half of this specific duty may be levied at the first native custom-house in the interior which the silk may pass, and in such case a certificate shall be given as provided for in section 3, and will be accepted by the custom-house concerned at place of export in lieu of half the export duty. Cocoons passing native custom-houses shall be liable to no taxation whatever. Silk not exported but consumed in China is liable to the consumption tax mentioned and under conditions mentioned in section 8.

SEC. 8. The abolition of the likin system in China and the abandonment of all other kinds of internal taxation on foreign imports and on exports will diminish the revenue materially. The surtax on foreign imports and exports and on coastwise exports is intended to compensate in a measure for this loss of revenue, but there remains the loss of likin revenue on internal trade to be met, and it is therefore agreed that the Chinese Government are at liberty to impose a consumption tax on articles of Chinese origin not intended for export.

This tax shall be levied only at places of consumption and not on goods while in transit, and the Chinese Government solemnly undertake that the arrangements which they make for its collection shall in no way interfere with foreign goods or with native goods for export. The fact of goods being of foreign origin shall of itself free them from all taxation, delay, or stoppage after having passed the custom-house.

Foreign goods which bear a similarity to native goods shall be furnished by the custom-house, if required by the owner, with a protective certificate for each package, on payment of import duty and surtax, to prevent the risk of any dispute in the interior.

Native goods brought by junks to open ports, if intended for local consumption—irrespective of the nationality of the owner of the goods—shall be reported at the native custom-house only, where the consumption tax may be levied.

China is at liberty to fix the amount of this (consumption) tax, which may vary according to the nature of the merchandise concerned; that is to say, according as the articles are necessities of life or luxuries; but it shall be levied at a uniform rate on goods of the same description, no matter whether carried by junk, sailing vessel, or steamer. As mentioned in section 3, the consumption tax is not to be levied within foreign settlements or concessions.

SEC. 9. An excise equivalent to double the import duty as laid down in the protocol of 1901 is to be charged on all machine-made yarn and cloth manufactured in China, whether by foreigners at the open ports or by Chinese anywhere in China.

A rebate of the import duty and two-thirds of the import surtax is to be given on raw cotton imported from foreign countries, and of all duties, including consumption tax, paid on Chinese raw cotton used in mills in China.

Chinese machine-made yarn or cloth having paid excise is to be free of export duty, export surtax, coast-trade duty, and consumption tax. This excise is to be collected through the imperial maritime customs.

The same principle and procedure are to be applied to all other products of foreign type turned out by machinery, whether by foreigners at the open ports or by Chinese anywhere in China.

This stipulation is not to apply to the outturn of the Hanyang and Ta Yeh iron works in Hupeh and other similar existing Government works at present exempt from taxation, or to that of arsenals, Government dockyards, or establishments of that nature for Government purposes which may hereafter be erected.

SEC. 10. A member or members of the imperial maritime customs foreign staff shall be selected by each of the governors-general and governors, and appointed, in consultation with the inspector-general of imperial maritime customs, to each province for duty in connection with native customs affairs, consumption tax, salt and native opium taxes. These officers shall exercise an efficient supervision of the working of these departments, and in the event of their reporting any case of abuse, illegal exaction, obstruction to the movement of goods, or other cause of complaint, the governor-general or governor concerned will take immediate steps to put an end to same.

SEC. 11. Cases where illegal action as described in this article is complained of shall be promptly investigated by an officer of the Chinese Government of sufficiently high rank, in conjunction with a British officer and an officer of the imperial maritime customs, each of sufficient standing; and in the event of its being found by a majority of the investigating officers that the complaint is well founded and loss has been incurred, due compensation is to be at once paid from the surtax funds, through the imperial maritime customs at the nearest open port. The high provincial officials are to be held responsible that the officer guilty of the illegal action shall be severely punished and removed from his post.

If the complaint turns out to be without foundation, complainant shall be held responsible for the expenses of the investigation.

His Britannic Majesty's minister will have the right to demand investigation where from the evidence before him he is satisfied that illegal exactions or obstructions have occurred.

SEC. 12. The Chinese Government agree to open to foreign trade, on the same footing as the places opened to foreign trade by the treaties of Nanking and Tientsin, the following places, namely: Ch'angsha, in Hunan; Wanh sien, in Szechuen; Nganking, in Anhui; Waichow (Hui-chow), in Kuangtung; Kongmoon (Chiang-mên), in Kuangtung.

Foreigners residing in these open ports are to observe the municipal and police regulations on the same footing as Chinese residents, and they are not to be entitled to establish municipalities and police of their own within the limits of these treaty ports except with the consent of the Chinese authorities.

If this article does not come into operation, the right to demand under it the opening of these ports, with the exception of Kongmoon, which is provided for in article 10, shall lapse.

SEC. 13. Subject to the provisions of section 14, the arrangements provided for in this article are to come into force on January 1, 1904.

By that date all likin barriers shall be removed and officials employed in the collection of taxes and dues prohibited by this article shall be removed from their posts.

SEC. 14. The condition on which the Chinese Government enter into the present engagement is that all Powers entitled to most-favored-nation treatment in China enter into the same engagements as Great Britain with regard to the payment of surtaxes and other obligations imposed by this article on His Britannic Majesty's Government and subjects.

The conditions on which His Britannic Majesty's Government enter into the present engagement are:

(1) That all Powers who are now or who may hereafter become entitled to most-favored-nation treatment in China enter into the same engagements;

(2) And that their assent is neither directly nor indirectly made dependent on the granting by China of any political concession or of any exclusive commercial concession.

SEC. 15. Should the Powers entitled to most-favored-nation treatment by China have failed to agree to enter into the engagements undertaken by Great Britain under this article by January 1, 1904, then the provisions of the article shall only come into force when all the Powers have signified their acceptance of these engagements.

SEC. 16. When the abolition of likin and other forms of internal taxation on goods as provided for in this article has been decided upon and sanctioned, an imperial edict shall be published in due form on yellow paper and circulated, setting forth the abolition of all likin taxation, likin barriers, and all descriptions of internal taxation on goods, except as provided for in this article.

The edict shall state that the provincial high officials are responsible that any official disregarding the letter or spirit of this injunction shall be severely punished and removed from his post.

#### ARTICLE IX.

The Chinese Government, recognizing that it is advantageous for the country to develop its mineral resources and that it is desirable to attract foreign as well as Chinese capital to embark in mining enterprises, agree within one year from the signing of this treaty to initiate and conclude the revision of the existing mining regulations. China will, with all expedition and earnestness, go into the whole question of mining rules, and, selecting from the rules of Great Britain, India, and other countries regulations which seem applicable to the condition of China, she will recast her present mining rules in such a way as, while promoting the interests of Chinese subjects and not injuring in any way the sovereign rights of China, shall offer no impediment to the attraction of foreign capital or place foreign capitalists at a greater disadvantage than they would be under generally accepted foreign regulations.

Any mining concession granted after the publication of these new rules shall be subject to their provisions.

#### ARTICLE X.

Whereas in the year 1898 the inland waters of China were opened to all such steam vessels, native or foreign, as might be especially registered for that trade at the treaty ports, and whereas the regula-

tions dated July 28, 1898, and supplementary rules dated September, 1898, have been found in some respects inconvenient in working, it is now mutually agreed to amend them and to annex such new rules to this treaty. These rules shall remain in force until altered by mutual consent.

It is further agreed that Kongmoon shall be opened as a treaty port, and that in addition to the places named in the special article of the Burmah convention of February 4, 1897, British steamers shall be allowed to land or ship cargo and passengers, under the same regulations as apply to the "ports of call" on the Yangtze River, at the the following "ports of call:" Pak Tau Hau (Pai-t'u k'ou), Lo Ting Hau (Lo-ting k'ou), and Do Sing (Tou-ch'êng); and to land or discharge passengers at the following ten passenger landing stages on the West River: Yung Ki (Jung-chi), Mah Ning (Ma-ning), Kau Kong (Chiu-chiang), Kulow (Ku-lao), Wing On (Yung-an), How Lik (Hou-li), Luk Pu (Lu-pu), Yuet Sing (Yüeh-ch'êng), Luk To (Lu-tu), and Fung Chuen (Fêng-ch'uan).

#### ARTICLE XI.

His Britannic Majesty's Government agree to the prohibition of the general importation of morphia into China, on condition, however, that the Chinese Government will allow of its importation, on payment of the tariff import duty and under special permit by duly qualified British medical practitioners and for the use of hospitals, or by British chemists and druggists, who shall only be permitted to sell it in small quantities and on receipt of a requisition signed by a duly qualified foreign medical practitioner.

The special permits above referred to will be granted to an intending importer on his signing a bond before a British consul guaranteeing the fulfillment of these conditions. Should an importer be found guilty before a British consul of a breach of his bond, he will not be entitled to take out another permit. Any British subject importing morphia without a permit shall be liable to have such morphia confiscated.

This article will come into operation on all other Treaty Powers agreeing to its conditions, but any morphia actually shipped before that date will not be affected by this prohibition.

The Chinese Government on their side undertake to adopt measures at once to prevent the manufacture of morphia in China.

#### ARTICLE XII.

China having expressed a strong desire to reform her judicial system and to bring it into accord with that of western nations, Great Britain agrees to give every assistance to such reform, and she will also be prepared to relinquish her extra territorial rights when she is satisfied that the state of the Chinese laws, the arrangement for their administration, and other considerations warrant her in so doing.

#### ARTICLE XIII.

The missionary question in China being, in the opinion of the Chinese Government, one requiring careful consideration, so that, if possible, troubles such as have occurred in the past may be averted in the future, Great Britain agrees to join in a commission to investi-

gate this question, and, if possible, to devise means for securing permanent peace between converts and nonconverts, should such a commission be formed by China and the Treaty Powers interested.

#### ARTICLE XIV.

Whereas, under Rule V appended to the treaty of Tientsin of 1858, British merchants are permitted to export rice and all other grain from one port of China to another under the same conditions in respect of security as copper "cash," it is now agreed that in cases of expected scarcity or famine from whatsoever cause in any district, the Chinese Government shall, on giving twenty-one days' notice, be at liberty to prohibit the shipment of rice and other grain from such district.

Should any vessel specially chartered to load rice or grain previously contracted for have arrived at her loading port prior to or on the day when notice of prohibition to export comes into force she shall be allowed an extra week in which to ship her cargo.

If during the existence of this prohibition any shipment of rice or grain is allowed by the authorities, the prohibition shall, ipso facto, be considered cancelled and shall not be reimposed until six weeks' notice has been given.

When a prohibition is notified, it will be stated whether the Government have any tribute or army rice which they intend to ship during the time of prohibition, and if so, the quantity shall be named.

Such rice shall not be included in the prohibition, and the customs shall keep a record of any tribute or army rice so shipped or landed.

The Chinese Government undertake that no rice, other than tribute or army rice belonging to the Government, shall be shipped during the period of prohibition.

Notifications of prohibitions and of the quantities of army or tribute rice for shipment shall be made by the governors of the provinces concerned.

Similarly notifications of the removals of prohibitions shall be made by the same authorities.

The export of rice and other grain to foreign countries remains prohibited.

#### ARTICLE XV.

It is agreed that either of the high contracting parties to this treaty may demand a revision of the tariff at the end of ten years; but if no demand be made on either side within six months after the end of the first ten years then the tariff shall remain in force for ten years more, reckoned from the end of the preceding ten years, and so it shall be at the end of each successive ten years.

Any tariff concession which China may hereafter accord to articles of the produce or manufacture of any other state shall immediately be extended to similar articles of the produce or manufacture of His Britannic Majesty's dominions by whomsoever imported.

Treaties already existing between the United Kingdom and China shall continue in force in so far as they are not abrogated or modified by stipulations of the present treaty.

#### ARTICLE XVI.

The English and Chinese texts of the present treaty have been carefully compared, but in the event of there being any difference of

meaning between them the sense as expressed in the English text shall be held to be the correct sense.

The ratifications of this treaty, under the hand of His Majesty the King of Great Britain and Ireland, and of His Majesty the Emperor of China, respectively, shall be exchanged at Peking within a year from this day of signature.

In token whereof the respective plenipotentiaries have signed and sealed this treaty, two copies in English and two in Chinese.

Done at Shanghai this fifth day of September, in the year of our Lord 1902, corresponding with the Chinese date the fourth day of the eighth moon of the twenty-eighth year of Kwang Hsü.

[L. S.] JAS. L. MACKAY.

[Signature of His Excellency Shêng Hsüan-huai.]

[Signature of His Excellency Lü Hai-huan.]

[Seal of the Chinese plenipotentiaries.]

#### ANNEX A—(1).

[Translation.]

Lü, president of the board of works, Shêng, junior guardian of the Heir Apparent, vice-president of the board of works, Imperial Chinese Commissioners for dealing with questions connected with the commercial treaties, to Sir James Mackay, His Britannic Majesty's special commissioner for the discussion of treaty matters.

SHANGHAI, *K. H. XXVIII, 7th moon, 11th day.*

(Received August 15, 1902.)

We have the honor to inform you that we have received the following telegram from His Excellency Liu, governor-general of the Liang Chiang, on the subject of Clause II, mutually agreed upon by us:

"As regards this clause, it is necessary to insert therein a clear stipulation to the effect that, no matter what changes may take place in the future, all customs duties must continue to be calculated on the basis of the existing higher rate of the haikwan tael over the treasury tael, and that 'the touch' and weight of the former must be made good."

As we have already arranged with you that a declaration of this kind should be embodied in an official note and form an annex to the present treaty, for purposes of record, we hereby do ourselves the honor to make this communication.

[Seal of the Imperial Commissioners for dealing with questions connected with treaty revision.]

#### ANNEX A—(2).

SHANGHAI, *August 18, 1902.*

GENTLEMEN: I have the honor to acknowledge the receipt of your dispatch of the 14th instant, forwarding a copy of a telegram from His Excellency Liu, governor-general of the Liang Chiang, on the subject of Article II of the new treaty, and in reply I have the honor to state that His Excellency's understanding of the article is perfectly correct.

I presume the Chinese Government will make arrangements for the coinage of a national silver coin of such weight and touch as may be decided upon by them. These coins will be made available to the pub-

lic in return for a quantity of silver bullion of equivalent weight and fineness plus the usual mintage charge.

The coins, which will become the national coinage of China, will be declared by the Chinese Government to be legal tender in payment of customs duty and in discharge of obligations contracted in haikwan taels, but only at their proportionate value to the haikwan tael, whatever that may be.

I have the honor to be, gentlemen, your obedient servant,

JAS. L. MACKAY.

Their Excellencies LÜ HAI-HUAN and SHÊNG HSÜAN-HUAI, etc.

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ANNEX B (1).

[Translation.]

Lü, president of the board of works, Shêng, junior guardian of the Heir Apparent, vice-president of the board of works, Imperial Chinese Commissioners for dealing with questions connected with the commercial treaties, to Sir James Mackay, His Britannic Majesty's Special Commissioner.

SHANGHAI, *September 2, 1902.*

We have the honor to inform you that on August 22 we, in conjunction with the governors-general of the Liang Chiang and the Hu-kuang provinces, Their Excellencies Liu and Chang addressed the following telegraphic memorial to the Throne:

"Of the revenue of the different provinces derived from likin of all kinds, a portion is appropriated for the service of the foreign loans, a portion for the Peking Government, and the balance is reserved for the local expenditure of the provinces concerned.

"In the negotiations now being conducted with Great Britain for the amendment of the commercial treaties, a mutual arrangement has been come to providing for the imposition of additional taxes, in compensation for the abolition of all kinds of likin and other imposts on goods, prohibited by Article VIII. After payment of interest and sinking fund on the existing foreign loan, to the extent to which likin is thereto pledged, these additional taxes shall be allocated to the various provinces to make up deficiencies and replace revenue, in order that no hardships may be entailed on them. With a view to preserving the original intention underlying the proposal to increase the duties in compensation for the loss of revenue derived from likin and other imposts on goods, it is further stipulated that the surtaxes shall not be appropriated for other purposes, shall not form part of the imperial maritime customs revenue proper, and shall in no case be pledged as security for any new foreign loan.

"It is therefore necessary to memorialize for the issue of an edict, giving effect to the above stipulations and directing the board of revenue to find out what proportion of the provincial revenues derived from likin of all kinds, now about to be abolished, each province has hitherto had to remit, and what proportion it has been entitled to retain, so that, when the article comes into operation, due apportionment may be made accordingly, thus providing the provinces with funds available for local expenditure and displaying equitable and just treatment toward all."

On the 1st instant an imperial decree, "Let action, as requested, be taken," was issued, and we now do ourselves the honor reverently to transcribe the same for your information.

[Seal of the Imperial Commissioners for dealing with questions connected with treaty revision.]

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ANNEX B—(2).

SHANGHAI, *September 5, 1902.*

GENTLEMEN: I have the honor to acknowledge the receipt of your dispatch of the 2d instant forwarding the text of the memorial and decree dealing with the disposal of the surtaxes.

I understand that the surtaxes, in addition to not being pledged for any new foreign loan, are not to be pledged to, or held to be security for, liabilities already contracted by China, except in so far as likin revenue has already been pledged to an existing loan.

I also understand from the memorial that the whole of the surtaxes provided by Article VIII of the new treaty goes to the provinces in proportions to be agreed upon between them and the board of revenue, but that out of these surtaxes each province is obliged to remit to Peking the same contribution as that which it has hitherto remitted out of its likin collections, and that the provinces also provide as hitherto out of these surtax funds whatever may be necessary for the service of the foreign loan to which likin is partly pledged.

I hope your excellencies will send me a reply to this dispatch, and that you will agree to this correspondence forming part of the treaty as an annex.

I have the honor to be, gentlemen, your obedient servant,

JAS. L. MACKAY.

Their Excellencies LÜ HAI-HUAN and SHÊNG HSÜAN-HUAI, etc.

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ANNEX B—(3).

[Translation.]

Lü, president of the board of works, Shêng, junior guardian of the Heir Apparent, vice-president of the board of works, Imperial Chinese Commissioners for dealing with questions connected with the commercial treaties, to Sir James L. Mackay, His Britannic Majesty's Special Commissioner.

SHANGHAI, *September 5, 1902.*

We have the honor to acknowledge the receipt of your communication of to-day's date with regard to the allocation of the surtax funds allotted to the provinces, and to inform you that the views therein expressed are the same as our own.

We would, however, wish to point out that, were the whole amount of the allocation due paid over to the provinces, unnecessary expense would be incurred in the retransmission by them of such portions thereof as would have to be remitted to Peking in place of the contributions hitherto payable out of likin revenue. The amount, therefore, of the allocation due to the provinces, arranged between them and the board of revenue, will be retained in the hands of the mari-

time customs, who will await the instructions of the provinces in regard to the remittance of such portion thereof as may be necessary to fulfill their obligations, and (on receipt of these instructions) will send forward the amount direct. The balance will be held to the order of the provinces.

In so far as likin is pledged to the service of the 1898 loan, a similar method of procedure will be adopted.

As you request that this correspondence be annexed to the treaty, we have the honor to state that we see no objection to this being done.

[Seal of the Imperial Commissioners for dealing with questions connected with treaty revision.]

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#### ANNEX C.

##### *Inland waters steam navigation.*

#### ADDITIONAL RULES.

1. British steamship owners are at liberty to lease warehouses and jetties on the banks of waterways from Chinese subjects for a term not exceeding twenty-five years, with option of renewal on terms to be mutually arranged. In cases where British merchants are unable to secure warehouses and jetties from Chinese subjects on satisfactory terms, the local officials, after consultation with the minister of commerce, shall arrange to provide these on renewable lease as above mentioned at current equitable rates.

2. Jetties shall only be erected in such positions that they will not obstruct the inland waterway or interfere with navigation, and with the sanction of the nearest commissioner of customs; such sanction, however, shall not be arbitrarily withheld.

3. British merchants shall pay taxes and contributions on these warehouses and jetties on the same footing as Chinese proprietors of similar properties in the neighborhood. British merchants may only employ Chinese agents and staff to reside in warehouses so leased at places touched at by steamers engaged in inland traffic to carry on their business; but British merchants may visit these places from time to time to look after their affairs. The existing rights of Chinese jurisdiction over Chinese subjects shall not by reason of this clause be diminished or interfered with in any way.

4. Steam vessels navigating the inland waterways of China shall be responsible for loss caused to riparian proprietors by damage which they may do to the banks or works on them and for the loss which may be caused by such damage. In the event of China desiring to prohibit the use of some particular shallow waterway by launches, because there is reason to fear that the use of it by them would be likely to injure the banks and cause damage to the adjoining country, the British authorities, when appealed to, shall, if satisfied of the validity of the objection, prohibit the use of that waterway by British launches, provided that Chinese launches are also prohibited from using it.

Both foreign and Chinese launches are prohibited from crossing dams and weirs at present in existence on inland waterways where they are likely to cause injury to such works which would be detrimental to the water service of the local people.

5. The main object of the British Government in desiring to see the inland waterways of China opened to steam navigation being to afford facilities for the rapid transport of both foreign and native merchandise, they undertake to offer no impediment to the transfer to a Chinese company and the Chinese flag of any British steamer which may now or hereafter be employed on the inland waters of China should the owner be willing to make the transfer.

In event of a Chinese company, registered under Chinese law, being formed to run steamers on the inland waters of China, the fact of British subjects holding shares in such a company shall not entitle the steamers to fly the British flag.

6. Registered steamers and their tows are forbidden, just as junks have always been forbidden, to carry contraband goods. Infraction of this rule will entail the penalties prescribed in the treaties for such an offense and cancellation of the inland waters navigation certificate carried by the vessels, which will be prohibited from thereafter plying on inland waters.

7. As it is desirable that the people living inland should be disturbed as little as possible by the advent of steam vessels, to which they are not accustomed, inland waters not hitherto frequented by steamers shall be opened as gradually as may be convenient to merchants and only as the owners of steamers may see prospect of remunerative trade.

In cases where it is intended to run steam vessels on waterways on which such vessels have not hitherto run, intimation shall be made to the commissioner of customs at the nearest open port, who shall report the matter to the ministers of commerce. The latter, in conjunction with the governor-general or governor of the province, after careful consideration of all the circumstances of the case, shall at once give their approval.

8. A registered steamer may ply within the waters of a port, or from one open port or ports to another open port or ports, or from one open port or ports to places inland, and thence back to such port or ports. She may, on making due report to the customs, land or ship passengers or cargo at any recognized places of trade passed in the course of the voyage, but may not ply between inland places exclusively except with the consent of the Chinese Government.

9. Any cargo and passenger boats may be towed by steamers. The helmsman and crew of any boat towed shall be Chinese. All boats, irrespective of ownership, must be registered before they can proceed inland.

10. These rules are supplementary to the inland steam navigation regulations of July and September, 1898. The latter, where untouched by the present rules, remain in full force and effect, but the present rules hold in the case of such of the former regulations as the present rules affect. The present rules, and the regulations of July and September, 1898, to which they are supplementary, are provisional, and may be modified as circumstances require, by mutual consent.

Done at Shanghai this fifth day of September, in the year of our Lord 1902; corresponding with the Chinese date, the fourth day of the eighth moon of the twenty-eighth year of Kwang Hsü.

[L. S.]

JAS. L. MACKAY.

[Signature of His Excellency Shêng Hsüan-huai.]

[Signature of His Excellency Lü Hai-huan.]

[Seal of the Chinese plenipotentiaries.]

### III.—PROVISIONS OF THE COMMERCIAL TREATY OF THE UNITED STATES WITH CHINA.

The following is the full text of the treaty which was signed at Shanghai on October 8:

The United States of America and His Majesty the Emperor of China, being animated by an earnest desire to extend further the commercial relations between them and otherwise to promote the interests of the peoples of the two countries, in view of the provisions of the first paragraph of Article XI of the final protocol signed at Peking on September 7, A. D. 1901, whereby the Chinese Government agreed to negotiate the amendments deemed necessary by the foreign governments to the treaties of commerce and navigation and other subjects concerning commercial relations, with the object of facilitating them, have for that purpose named as their plenipotentiaries:

The United States of America:

Edwin H. Conger, envoy extraordinary and minister plenipotentiary of the United States of America to China.

John Goodnow, consul general of the United States of America at Shanghai.

John F. Seaman, a citizen of the United States of America, resident at Shanghai.

And His Majesty the Emperor of China:

Lü Hai-huan, president of the board of public works.

Sheng Hsüan-huai, junior guardian of the heir apparent, formerly senior vice-president of the board of public works.

Wu Ting-fang, senior vice-president of the board of commerce;

Who, having met and duly exchanged their full powers, which were found to be in proper form, have agreed upon the following amendments to existing treaties of commerce and navigation previously concluded between the two countries, and upon the subjects hereinafter expressed connected with commercial relations, with the object of facilitating them.

#### ARTICLE I.

In accordance with international custom, and as the diplomatic representative of China has the right to reside in the capital of the United States, and to enjoy there the same prerogatives, privileges, and immunities as are enjoyed by the similar representative of the most favored nation, the diplomatic representative of the United States shall have the right to reside at the capital of His Majesty the Emperor of China. He shall be given audience of His Majesty the Emperor whenever necessary to present his letters of credence or any communication from the President of the United States. At all such times he shall be received in a place and in a manner befitting his high position, and on all such occasions the ceremonial observed toward him shall be that observed toward the representatives of nations on a footing of equality, with no loss of prestige on either side.

The diplomatic representatives of the United States shall enjoy all the prerogatives, privileges, and immunities accorded by international usage to such representatives, and shall in all respects be entitled to the treatment extended to similar representatives of the most favored nation.

The English text of all notes or dispatches from United States officials to Chinese officials and the Chinese text of all from Chinese officials to United States officials shall be authoritative.

## ARTICLE II.

As China may appoint consular officers to reside in the United States and to enjoy there the same attributes, privileges, and immunities as are enjoyed by consular officers of other nations, the United States may appoint, as its interests may require, consular officers to reside at the places in the Empire of China that are now or that may hereafter be opened to foreign residence and trade. They shall hold direct official intercourse and correspondence with the local officers of the Chinese Government within their consular districts, either personally or in writing, as the case may require, on terms of equality and reciprocal respect. These officers shall be treated with proper respect by all Chinese authorities, and they shall enjoy all the attributes, privileges, and immunities, and exercise all the jurisdiction over their nationals which are or may hereafter be extended to similar officers of the nation the most favored in these respects. If the officers of either government are disrespectfully treated or aggrieved in any way by the authorities of the other, they shall have the right to make representation of the same to the superior officers of their own government who shall see that full inquiry and strict justice be had in the premises. And the said consular officers of either nation shall carefully avoid all acts of offense to the officers and people of the other nation.

On the arrival of a consul, properly accredited, at any place in China opened to foreign trade, it shall be the duty of the minister of the United States to inform the board of foreign affairs, which shall, in accordance with international usage, forthwith cause the due recognition of the said consul and grant him authority to act.

## ARTICLE III.

Citizens of the United States may frequent, reside, and carry on trade, industries, and manufactures, or pursue any lawful avocation, in all the ports or localities of China which are now open, or may hereafter be opened, to foreign trade and residence; and, within the suitable localities at those places which have been or may be set apart for the use and occupation of foreigners, they may rent or purchase houses, places of business, and other buildings, and rent or lease in perpetuity land and build thereon. They shall generally enjoy, as to their persons and property, all such rights, privileges, and immunities as are or may hereafter be granted to the subjects or citizens of the nation the most favored in these respects.

## ARTICLE IV.

The Chinese Government, recognizing that the existing system of levying dues on goods in transit, and especially the system of taxation known as *likin*, impedes the free circulation of commodities to the general injury of trade, hereby undertakes to abandon the levy of *likin* and all other transit dues throughout the Empire, and to abolish the offices, stations, and barriers maintained for their collection and not to establish other offices for levying dues on goods in transit. It

is clearly understood that after the offices, stations, and barriers for taxing goods in transit have been abolished no attempt shall be made to reestablish them in any form or under any pretext whatsoever.

The Government of the United States, in return, consents to allow a surtax, in excess of the tariff rates for the time being in force, to be imposed on foreign goods imported by citizens of the United States and on Chinese produce destined for export abroad or coastwise. It is clearly understood that in no case shall the surtax on foreign imports exceed one and one-half times the import duty leviable in terms of the final protocol signed by China and the Powers on September 7, A. D. 1901; that the payment of the import duty and surtax shall secure for foreign imports, whether in the hands of Chinese or foreigners, in original packages or otherwise, complete immunity from all other taxation, examination, or delay; that the total amount of taxation, inclusive of the tariff export duty, leviable on native produce for export abroad, shall, under no circumstances, exceed  $7\frac{1}{2}$  per centum ad valorem.

Nothing in this article is intended to interfere with the inherent right of China to levy such other taxes as are not in conflict with its provisions.

Keeping these fundamental principles in view, the high contracting parties have agreed upon the following method of procedure:

The Chinese Government undertakes that all offices, stations, and barriers of whatsoever kind for collecting likin, duties, or such like dues on goods in transit shall be permanently abolished on all roads, railways, and waterways in the nineteen provinces of China and the three eastern provinces. This provision does not apply to the native customs officers at present in existence on the seaboard, at open ports where there are offices of the imperial maritime customs, and on the land frontiers of China embracing the nineteen provinces and the three eastern provinces.

Wherever there are offices of the imperial maritime customs, or wherever such may be hereafter placed, native customs offices may also be established, as well as at any point either on the seaboard or land frontiers.

The Government of the United States agrees that foreign goods on importation, in addition to the effective 5 per centum import duty, as provided for in the protocol of 1901, shall pay a special surtax of one and one-half times the amount of the said duty to compensate for the abolition of likin, of other transit dues besides likin, and of all other taxation on foreign goods, and in consideration of the other reforms provided for in this article.

The Chinese Government may recast the foreign export tariff with specific duties, as far as practicable, on a scale not exceeding 5 per centum ad valorem, but existing export duties shall not be raised until at least six months' notice has been given. In cases where existing export duties are above 5 per centum they shall be reduced to not more than that rate. An additional special surtax of one-half the export duty payable for the time being, in lieu of internal taxation of all kinds, may be levied at the place of original shipment or at the time of export on goods exported either to foreign countries or coastwise.

Foreign goods which bear a similarity to native goods shall be furnished by the customs officers, if required by the owner, with a protective certificate for each package, on the payment of import duty and surtax, to prevent the risk of any dispute in the interior.

Native goods brought by junks to open ports, if intended for local

consumption, irrespective of the nationality of the owner of the goods, shall be reported at the native customs offices only, to be dealt with according to the fiscal regulations of the Chinese Government.

Machine-made cotton yarn and cloth manufactured in China, whether by foreigners at the open ports or by Chinese anywhere in China, shall, as regards taxation, be on a footing of perfect equality. Such goods upon payment of the taxes thereon shall be granted a rebate of the import duty and of two-thirds of the import surtax paid on the cotton used in their manufacture, if it has been imported from abroad, and of all duties paid thereon if it be Chinese grown cotton. They shall also be free of export duty, coast-trade duty, and export surtax. The same principle and procedure shall be applied to all other products of foreign type turned out by machinery in China.

A member or members of the imperial maritime customs foreign staff shall be selected by the governors-general and governors of each of the various provinces of the Empire for their respective provinces, and appointed in consultation with the inspector-general of imperial maritime customs, for duty in connection with native customs affairs, to have a general supervision of their working.

Cases where illegal action is complained of by citizens of the United States shall be promptly investigated by an officer of the Chinese Government of sufficiently high rank, in conjunction with an officer of the United States Government and an officer of the imperial maritime customs, each of sufficient standing; and in the event of it being found by the investigating officers that the complaint is well founded and loss has been incurred due compensation shall be paid through the imperial maritime customs. The high provincial officials shall be held responsible that the officer guilty of the illegal action shall be severely punished and removed from his post. If the complaint is shown to be frivolous or malicious, the complainant shall be held responsible for the expenses of the investigation.

When the ratifications of this treaty shall have been exchanged by the high contracting parties hereto and the provisions of this article shall have been accepted by the powers having treaties with China, then a date shall be agreed upon when the provisions of this article shall take effect, and an imperial edict shall be published in due form on yellow paper and circulated throughout the Empire of China, setting forth the abolition of all likin taxation, duties on goods in transit, offices, stations, and barriers for collecting the same, and of all descriptions of internal taxation on foreign goods, and the imposition of the surtax on the import of foreign goods and on the export of native goods, and the other fiscal changes and reforms provided for in this article, all of which shall take effect from the said date. The edict shall state that the provincial high officials are responsible that any official disregarding the letter or the spirit of its injunction shall be severely punished and removed from his post.

#### ARTICLE V.

The tariff duties to be paid by citizens of the United States on goods imported into China shall be as set forth in the schedule annexed hereto and made part of this treaty, subject only to such amendments and changes as are authorized by Article IV of the present convention or as may hereafter be agreed upon by the present high contracting parties. It is expressly agreed, however, that citizens of the United

States shall at no time pay other or higher duties than those paid by the citizens or subjects of the most favored nation.

Conversely, Chinese subjects shall not pay higher duties on their imports into the United States than those paid by the citizens or subjects of the most favored nation.

#### ARTICLE VI.

The Government of China agrees to the establishment by citizens of the United States of warehouses, approved by the proper Chinese authorities as bonded warehouses, at the several open ports of China, for storage, repacking, or preparation for shipment of lawful goods, subject to such needful regulations for the protection of the revenue of China, including a reasonable scale of fees according to commodities, distance from the custom-house, and hours of working, as shall be made from time to time by the proper officers of the Government of China.

#### ARTICLE VII.

The Chinese Government, recognizing that it is advantageous for the country to develop its mineral resources and that it is desirable to attract foreign as well as Chinese capital to embark in mining enterprises, agrees, within one year from the signing of this treaty, to initiate and conclude the revision of the existing mining regulations. To this end China will, with all expedition and earnestness, go into the whole question of mining rules; and, selecting from the rules of the United States and other countries regulations which seem applicable to the condition of China, will recast its present mining rules in such a way as, while promoting the interests of Chinese subjects and not injuring in any way the sovereign rights of China, will offer no impediment to the attraction of foreign capital nor place foreign capitalists at a greater disadvantage than they would be under generally accepted foreign regulations; and will permit citizens of the United States to carry on in Chinese territory mining operations and other necessary business relating thereto, provided they comply with the new regulations and conditions which may be imposed by China on its subjects and foreigners alike, relating to the opening of mines, the renting of mineral land, and the payment of royalty, and provided they apply for permits, the provisions of which in regard to necessary business relating to such operations shall be observed. The residence of citizens of the United States in connection with such mining operations shall be subject to such regulations as shall be agreed upon between the United States and China.

Any mining concession granted after the publication of such new rules shall be subject to their provisions.

#### ARTICLE VIII.

Drawback certificates for the return of duties shall be issued by the imperial maritime customs to citizens of the United States within three weeks of the presentation to the customs of the papers entitling the applicant to receive such drawback certificates, and they shall be receivable at their face value in payment of duties of all kinds (tonnage dues excepted) at the port of issue, or shall, in the case of drawbacks

on foreign goods reexported within three years from date of importation, be redeemable by the imperial maritime customs in full in ready money at the port of issue, at the option of the holders thereof. But if in connection with any application for a drawback certificate the customs authorities discover an attempt to defraud the revenue the applicant shall be dealt with and punished in accordance with the stipulations provided in the treaty of Tientsin, Article XXI, in the case of detected frauds on the revenue. In case the goods have been removed from Chinese territory, then the consul shall inflict on the guilty party a fine, to be paid to the Chinese Government.

#### ARTICLE IX.

Whereas the United States undertakes to protect the citizens of any country in the exclusive use within the United States of any lawful trade-marks, provided that such country agrees by treaty or convention to give like protection to the citizens of the United States;

Therefore the Government of China, in order to secure such protection in the United States for its subjects, now agrees to fully protect any citizen, firm, or corporation of the United States in the exclusive use in the Empire of China of any lawful trade-mark to the exclusive use of which they are entitled in the United States, or which they have adopted and used, or intend to adopt and use as soon as registered, for exclusive use within the Empire of China. To this end the Chinese Government agrees to issue by its proper authorities proclamations, having the force of law, forbidding all subjects of China from infringing on, imitating, colorably imitating, or knowingly passing off an imitation of trade-marks belonging to citizens of the United States which shall have been registered by the proper authorities of the United States at such offices as the Chinese Government will establish for such purpose, on payment of a reasonable fee, after due investigation by the Chinese authorities and in compliance with reasonable regulations.

#### ARTICLE X.

The United States Government allows subjects of China to patent their inventions in the United States and protects them in the use and ownership of such patents. The Government of China now agrees that it will establish a patent office. After this office has been established and special laws with regard to inventions have been adopted it will thereupon, after the payment of the legal fees, issue certificates of protection, valid for a fixed term of years, to citizens of the United States on all their patents issued by the United States, in respect of articles the sale of which is lawful in China, which do not infringe on previous inventions of Chinese subjects, in the same manner as patents are to be issued to subjects of China.

#### ARTICLE XI.

Whereas the Government of the United States engages to give the benefits of its copyright laws to the citizens of any foreign state which gives to the citizens of the United States the benefits of copyright on an equal basis with its own citizens;

Therefore, the Government of China, in order to secure such benefits in the United States for its subjects, now agrees to give full pro-

tection, in the same way and manner and subject to the same conditions upon which it agrees to protect trade-marks, to all citizens of the United States who are authors, designers, or proprietors of any book, map, print, or engraving especially prepared for the use and education of the Chinese people, or translation into Chinese of any book, in the exclusive right to print and sell such book, map, print, engraving, or translation in the Empire of China during ten years from the date of registration. With the exception of the books, maps, etc., specified above, which may not be reprinted in the same form, no work shall be entitled to copyright privileges under this article. It is understood that Chinese subjects shall be at liberty to make, print, and sell original translations into Chinese of any works written or of maps compiled by a citizen of the United States. This article shall not be held to protect against due process of law any citizen of the United States or Chinese subject who may be author, proprietor, or seller of any publication calculated to injure the well-being of China.

#### ARTICLE XII.

The Chinese Government having, in 1898, opened the navigable inland waters of the Empire to commerce by all steam vessels, native or foreign, that may be specially registered for the purpose, for conveyance of passengers and lawful merchandise, citizens, firms, and corporations of the United States may engage in such commerce on equal terms with those granted to subjects of any foreign power.

In case either party hereto considers it advantageous at any time that the rules and regulations then in existence for such commerce be altered or amended, the Chinese Government agrees to consider amicably and to adopt such modifications thereof as are found necessary for trade and for the benefit of China.

The Chinese Government agrees that, upon the exchange of the ratifications of this treaty, Mukden and Antung, both in the province of Sheng-king, will be opened by China itself as places of international residence and trade. The selection of fitting localities to be set apart for international use and occupation and the regulations for these places set apart for foreign residence and trade shall be agreed upon by the Governments of the United States and China after consultation together.

#### ARTICLE XIII.

China agrees to take the necessary steps to provide for a uniform national coinage which shall be legal tender in payment of all duties, taxes, and other obligations throughout the Empire of China by the citizens of the United States as well as Chinese subjects. It is understood, however, that all customs duties shall continue to be calculated and paid on the basis of the haikwan tael.

#### ARTICLE XIV.

The principles of the Christian religion, as professed by the Protestant and Roman Catholic churches, are recognized as teaching men to do good and to do to others as they would have others do to them. Those who quietly profess and teach these doctrines shall not be harassed or persecuted on account of their faith. Any person, whether citizen of the United States or Chinese convert, who, accord-

ing to these tenets, peaceably teaches and practices the principles of Christianity shall in no case be interfered with or molested therefor. No restrictions shall be placed on Chinese joining Christian churches. Converts and nonconverts, being Chinese subjects, shall alike conform to the laws of China, and shall pay due respect to those in authority, living together in peace and amity, and the fact of being converts shall not protect them from the consequences of any offence they may have committed before or may commit after their admission to the church, or exempt them from paying legal taxes levied on Chinese subjects generally, except taxes levied and contributions for the support of religious customs and practices contrary to their religion. Missionaries shall not interfere with the exercise by the native authorities of their jurisdiction over Chinese subjects; nor shall the native authorities make any distinction between converts and nonconverts, but shall administer the laws without partiality, so that both classes can live together in peace.

Missionary societies of the United States shall be permitted to rent and to lease in perpetuity as the property of such societies buildings or lands in all parts of the Empire for missionary purposes, and, after the title deeds have been found in order and duly stamped by the local authorities, to erect such suitable buildings as may be required for carrying on their good work.

#### ARTICLE XV.

The Government of China having expressed a strong desire to reform its judicial system and to bring it into accord with that of Western nations, the United States agrees to give every assistance to this reform and will also be prepared to relinquish extraterritorial rights when satisfied that the state of the Chinese laws, the arrangements for their administration, and other considerations warrant it in so doing.

#### ARTICLE XVI.

The Government of the United States consents to the prohibition by the Government of China of the importation into China of morphia and of instruments for its injection, excepting morphia and instruments for its injection imported for medical purposes, on payment of tariff duty, and under regulations to be framed by China which shall effectually restrict the use of such import to the said purposes. This prohibition shall be uniformly applied to such importation from all countries. The Chinese Government engages to adopt at once measures to prevent the manufacture in China of morphia and of instruments for its injection.

#### ARTICLE XVII.

It is agreed between the high contracting parties hereto that all the provisions of the several treaties between the United States and China which were in force on January 1, A. D. 1900, are continued in full force and effect and except in so far as they are modified by the present treaty or other treaties to which the United States is a party.

The present treaty shall remain in force for a period of ten years, beginning with the date of the exchange of ratifications and until a revision is effected as hereinafter provided.

It is further agreed that either of the high contracting parties may demand that the tariff and the articles of this convention be revised

at the end of ten years from the date of the exchange of the ratifications hereof. If no revision is demanded before the end of the first term of ten years, then these articles in their present form shall remain in full force for a further term of ten years, reckoned from the end of the first term, and so on for successive periods of ten years.

The English and Chinese texts of the present treaty and its three annexes have been carefully compared, but in the event of there being any difference of meaning between them, the sense as expressed in the English text shall be held to be the correct one.

This treaty and its three annexes shall be ratified by the two high contracting parties in conformity with their respective constitutions, and the ratification shall be exchanged in Washington not later than twelve months from the present date.

In testimony whereof we, the undersigned, by virtue of our respective powers, have signed this treaty in duplicate in the English and Chinese languages, and have affixed our respective seals.

Done at Shanghai, October 8, in the year of our Lord 1903, and the twenty-ninth year of Kuang Hsü, eighth month and eighteenth day.

#### ANNEX I.

As citizens of the United States are already forbidden by treaty to deal in or handle opium, no mention has been made in this treaty of opium taxation.

As the trade in salt is a Government monopoly in China, no mention has been made in this treaty of salt taxation.

It is, however, understood, after full discussion and consideration, that the collection of inland duties on opium and salt and the means for the protection of the revenue therefrom and for preventing illicit traffic therein are left to be administered by the Chinese Government in such manner as shall in no wise interfere with the provisions of Article IV of this treaty regarding the unobstructed transit of other goods.

#### ANNEX II.

Article IV of the treaty of commerce between the United States and China of this date provides for the retention of the native customs offices at the open ports. For the purpose of safeguarding the revenue of China at such places, it is understood that the Chinese Government shall be entitled to establish and maintain such branch native customs offices at each open port, within a reasonable distance of the main native customs offices at the port, as shall be deemed by the authorities of the imperial maritime customs at that port necessary to collect the revenue from the trade into and out of such port. Such branches, as well as the principal native customs offices at each open port, shall be administered by the imperial maritime customs, as provided by the protocol of 1901.

#### ANNEX III.

The schedule of tariff duties on imported goods annexed to this treaty under Article V is hereby mutually declared to be the schedule agreed upon between the representatives of China and of the United States, and signed by John Goodnow, for the United States, and Their Excellencies Lü Hai-huan and Sheng Hsüan-huai for China, at Shanghai, on the sixth day of September, A. D. 1902, according to the protocol of the seventh day of September, A. D. 1901.

IV.—LETTER FROM SECRETARY HAY TO MINISTER CONGER REGARD-  
ING ARTICLE XIII OF THE FOREGOING TREATY.

No. 719.]

DEPARTMENT OF STATE,  
Washington, October 12, 1903.

EDWIN H. CONGER, Esq., *Peking.*

SIR: In connection with Article XIII of the treaty with China, signed on the 8th instant, by which the Chinese Government agrees to take the necessary steps to provide for a uniform national coinage, I have to request that you will address a letter to the president of the foreign office stating that this Government interprets this article in connection with the memorandum submitted on January 22, 1903, by the Imperial Government of China to the Government of the United States, through the Chinese chargé d'affaires at this capital, regarding the desirability of establishing a fixed rate of exchange between the moneys of gold and silver countries, and that this Government consequently expects China to make arrangements by which its new coins will be given a fixed value in terms of gold.

I am, sir, your obedient servant,

JOHN HAY.

THE CHINO-JAPANESE COMMERCIAL TREATY.

The Japan Times says that, according to the "Jiji," the provisions of the new treaty are substantially as follows:

ARTICLE I. Questions relating to customs duties, supplementary customs charges, the likin tax, and consumption tax shall be determined in the same way as the treaties with other powers.

ART. II. Japan shall have the right of navigation between Ichang and Chungking, free from interference on the part of the Chinese.

ART. III. Japanese vessels shall be entitled to enter any port in addition to the treaty ports, provided the fact be notified to the customs.

ART. IV. The regulations with regard to all enterprises carried out in cooperation between Japanese and Chinese shall be the same as those contained in the Anglo-Chinese treaty.

ART. V. The grant of copyright to Chinese publications or the registration of trade-marks on Chinese products falsely purporting to be of Japanese origin shall not be permitted, nor shall copyright be granted to any objectionable publication, whether Japanese or Chinese.

ART. VI. This provision relates to the Chinese currency and is the same as that in the Anglo-Chinese treaty.

ART. VII. This provision relates to a uniform system of weights and measures in China.

ART. VIII. The present inland navigation regulations shall be revised.

ART. IX. This provision relates to the "most-favored-nation clause."

ART. X. Peking shall be opened to foreign trade after the withdrawal of the foreign legion guards at that place; Changsha in Hunan within six months after the exchange of ratifications of this treaty, and Mukden and Tatungkou after the exchange of ratifications.

ART. XI. This provision relates to the revision of the existing Chinese codes. The provision dealing with the abolition of extra-territoriality and the revision of the codes is the same as that contained in the Anglo-Chinese treaty.

ART. XII. The treaty shall be made in triplicate, Japanese, English,

and Chinese, the English copy to rule should dispute arise on a question of interpretation.

ART. XIII. The exchange of ratifications of this treaty shall take place at Peking within six months after the treaty shall have been signed.

#### V.—DISTRIBUTION OF THE CHINESE INDEMNITY PAYMENTS.

*Sir E. Satow to the Marquess of Lansdowne.*

No. 167.]

PEKING, June 14, 1902.

(Received August 4.)

MY LORD: I have the honor to forward copy of the protocol signed to-day by the representatives of all the foreign Powers who were parties to the final protocol of September 7 last, fixing the share of each Power in the indemnity of 450,000,000 taels to be paid by China.

I have, etc.,

ERNEST SATOW.

[Inclosure in No. 1.]

#### PROTOCOLE.

Les representants des Puissances etrangeres signataires du protocole final, reunis en seance le 14 Juin, 1902, ont declare qu'ils acceptent chacun en ce qui concerne son Gouvernement le partage de l'indemnité de 450,000,000 taels d'apres la liste ci-apres.

	Pour cent.	Taels.
Allemagne .....	20.01567	90,070,515
Autriche-Hongrie .....	.88976	4,003,920
Belgique .....	1.88541	8,484,345
Espagne .....	.09007	135,315
Etats-Unis .....	7.31979	32,939,055
France .....	15.75072	70,878,240
Grande-Bretagne .....	11.24901	50,620,545
Portugal .....	.02050	92,250
Italie .....	5.91489	26,617,005
Japon .....	7.73180	34,793,100
Pays-Bas .....	.17380	782,100
Russie .....	28.97136	130,371,120
Reclamations internationales .....	.03326	149,670
Suede et Norvege .....	.01396	62,820
Grand total .....	100.00000	450,000,000

Pour l'Allemagne:  
(Signe) A. v. MUMM.

Pour l'Autriche-Hongrie:  
(Signe) M. CZICKANN.

Pour la Belgique:  
(Signe) E. DE CARTIER.

Pour l'Espagne:  
(Signe) MANUEL DE CARZER.

Pour l'Etats-Unis:  
(Signe) E. H. CONGER.

Pour la France:  
(Signe) BEAU.

PEKIN, le 14 Juin, 1902.

H. Doc. 144—15

Pour la Grande-Bretagne:  
(Signe) ERNEST SATOW.

Pour l'Italie:  
(Signe) G. GALLINA.

Pour le Japon:  
(Signe) Y. UCHIDA.

Pour le Pays-Bas:  
(Signe) P. LOUDON.

Pour la Russie:  
(Signe) P. LESSAR.

## VI.—SUGGESTIONS CONCERNING A UNIFORM CURRENCY.

By Sir ROBERT HART, Bart., inspector-general of imperial marine customs.

[Presented to the Waiwupu (board of foreign affairs)—Specially translated for the North-China Daily News and reprinted from North-China Herald, July 3, 1903.]

1. While the various countries of the world possess a gold standard, China at the present day is still without it and yet continues the use of silver money. It is not because other countries have no silver money, but since gold began to have a steady value regulations were made for a fixed ratio between gold and silver. China not only has no gold currency, but her silver money even has no uniform weight or appearance, nor has she a fixed ratio of exchange between the two metals, so that whenever there is need for gold it must be obtained at market rates. For this reason people in China labor under the difficulty of fluctuating rates of exchange at various hours of the day. Moreover the silver dollars in use are limited in number, the balance of the currency being largely made up of silver ingots and lumps. These lumps and ingots of silver are merely so much silver in the mass, and in the barter for goods are much inferior to the silver dollar.

During the past twenty to thirty years the output of silver mines has been exceedingly great and much more than is needed for use by the various countries of the world, and it is increasing from year to year, so that silver has become cheaper and cheaper and the purchase price as compared with gold gradually less and less. Hence it would be much wiser for China to maintain a gold standard instead of a silver one as at present, since silver has dropped down to such a degree and moreover possesses no certain or uniform exchange, even within the limits of a single day. The hundreds of trades are all disastrously affected by the present state of the currency, while the Government having to pay its foreign debts in gold, both country and people are being plunged into the depths of financial distress. The conditions pictured in the foregoing therefore compel one to seek some plan whereby they may be ameliorated, and so make it that China, while still using a silver currency, shall so fix a uniform exchange between silver and gold that there may be no danger of uncertain fluctuations. With this object in view I now proceed with my suggestions.

2. If the Chinese Government possessed a large quantity of gold this metal might be struck into gold coins, and then a fixed exchange could be decided in their relation to silver money. This naturally would be an easy matter to put into force. But when we have no gold and only use a silver and copper currency, it becomes incumbent upon us to decide upon some method to bring about a fixed ratio of exchange between gold and silver. If it could be possible to do this by making only slight changes in the old methods of exchange, so much the better, as it would obviate the necessity of making the people suffer on both accounts. When there is no gold and yet it is determined to maintain a fixed ratio of exchange between gold and silver, it is necessary to create a silver currency of a uniform weight and fineness and in quantities sufficient to meet the needs of the whole Empire. To do this a mint to strike these coins is of paramount importance and indispensable. The central government must establish a special mint of its own, which shall strike all the coins needed, according to fixed regulations, and no branch mints must be permitted to be established elsewhere. As for the proposal to start a Government bank, while there are, of course, certain benefits and financial advan-

tages obtainable from such an institution, as a matter of fact such a bank can have little to do with the making of a fixed ratio in the exchange of gold and silver.

3. If it be decided to coin money to supply the currency needed for the whole Empire it would be advisable to continue to retain the terms and weights of "tael," "mace," "candareen," and "li" (Liang, Ch'ien, Fên, Li), as the people are accustomed to their use. But in minting the uniform currency it will be necessary that it should not only be accepted at a fixed value throughout the Empire, but be also recognized and accepted at a fixed value in exchange for gold in the other countries of the world. This must be the main object in view and is of greater importance than that of being the accepted currency in our own Empire. Hence the "tael" must be made of such a weight as to correspond in value to a certain amount of silver, which should be decided afterwards, with the object of making it a recognized coin in other countries. It has been recommended by certain persons that in coining the new currency the American dollar should be made the standard, because the American dollar has already a recognized and fixed value in relation to gold in other countries. Others again have also recommended that the new silver currency be made each into a piece of coin 1 Kuping tael in weight, because the present market rate of gold exchange is 8 Kuping taels for £1 gold. Either of the above suggestions is feasible, and in making the new currency it should be made into four kinds, namely, 1-tael, 5-mace,  $2\frac{1}{2}$ -mace, and 1-mace coins. Besides these silver coins there should be also struck two kinds of copper money, namely, 10-cash pieces and 1-cash pieces (10 cash=1 fên; 1 cash=1 li). After the establishment of the mint and the striking of coins of all kinds, it will then be time to decide when the new currency shall be launched upon the country. No other coins should be permitted to circulate in the Empire after this.

4. As soon as it has been decided what coins are to be struck, proper regulations should be made with regard to the mint to be established. If too many branch mints be allowed, it is to be apprehended that the money struck may not be of uniform weight or fineness, and so confusion may be caused such as is now prevalent in this Empire, and thus infinite trouble and obstruction to the reforms suggested may arise. The best way would be to select some central spot for the construction of one principal mint which shall coin all the currency that may be needed by the provincial governments. With the exception of this principal mint no other mints shall be allowed to be established. All the minting machinery now in use in the various provinces should be without reserve sent to the principal mint in question, so that there may be no waste of the money expended upon it. Besides the native workmen to be employed in this mint there should also be engaged certain foreign experts, namely, one superintendent, one examiner of silver, one head machinist, and one accountant, each having his special department of work. The 1-tael and 5-mace silver coins that are to be struck should be made of nine-tenths silver and one-tenth copper; the  $2\frac{1}{2}$ -mace and 1-mace coins should be made of eight-tenths silver and two-tenths copper, the one-tenth and two-tenths silver balance thus obtained to be utilized as running expenses of the mint. These coins being thus substantial, no one will try to change them.

When the mint has been established it should first begin with the work of coining into money the silver ingots deposited in the provin-

cial treasuries, which should be all sent to the mint to be turned into currency. Should silver bullion be brought to the mint with the request that it be coined, the foreign examiner of silver should weigh it and test its fineness. If these should prove satisfactory, the money already coined by the mint shall be paid out in exchange for the silver bullion. Furthermore, as to the question whether the mint shall issue silver notes or prepare silver certificates against the amount of silver coins deposited in its vaults, this is a matter of much importance and requires deliberation and further consultation.

5. After the opening of the mint an imperial decree should be issued prohibiting the circulation of any silver currency within the limits of the Empire other than that struck by the imperial mint. A certain limit of time must also be given for the stoppage of circulation, as money of the realm, of all silver sycee and silver ingots hitherto passing current as money, and granting permission to the possessors of such silver to take them to the mint to exchange for the new currency according to weight of silver so brought. It should also be set forth by imperial decree fixing the exchange value of the new currency, namely, how many taels shall be equivalent to £1 gold, and how many copper cash to the tael. With regard to the important question of making the new currency accepted in other countries the authorities of the mint shall, after the issuance of an imperial decree, appoint an officer to take charge of the duty of exchanging certificates issued by the mint for gold. This officer shall be given a certain number of said certificates and shall be stationed either in China or abroad. Foreign merchants who have firms, business, or banks in China must use Chinese currency, and in order to obtain such currency are bound to apply to the above-named officer for these mint certificates.

Moreover, in buying these certificates the foreign merchants must pay in accordance with the fixed rate of gold for silver currency as determined by imperial decree. After complying with these conditions the foreign merchants may then exchange these certificates at the mint for the new currency coined by it. The gold paid in exchange for the said mint certificates may either be first deposited with the officer in question or be used to pay the foreign gold debts due by China, or be struck into Chinese gold coins in the future.

Due note should be made of the progress of the scheme for the guidance of all concerned in the future. By acting in the manner indicated above the new currency will be a *fait accompli* and have free circulation, and there will be a recognized fixed ratio in exchange between gold coins of foreign countries and the new silver currency to the benefit of international trade. This is one way of obtaining a fixed rate of exchange between silver currency and gold, which is only explained here in a general way, being too important a matter to be contained within the limits of these suggestions, and it will require careful and mature consideration and consultation to avoid mistakes at the beginning of such a great enterprise.

6. If it be indeed desired to obtain a fixed rate in the exchange of silver currency for gold, there seems to be no other way of doing so except the adoption of the foregoing suggestions. It will also be necessary to arrive at an understanding with the banks of other countries and work in conjunction with them; but these are matters requiring much deliberation and attention, and should be taken up as the occasion offers.

As to the question of whether China should have a Government bank, this is also a most important matter, although it will not affect

very much the question of bringing about a fixed rate between the price of silver currency and gold. Therefore the starting of a Government bank may be left to some later period after the establishment of the present all-important matter. It is not a question which must be started before it. However, the various Powers all have Government banks and have obtained benefits from their establishment, especially Great Britain. When China, therefore, has reformed her fiscal system, then it will be of advantage to also establish a Government bank. There are six objects in starting a Government bank: (a) To assist the authorities to collect and take charge of revenue and keep account of it; (b) to enable the collector of revenues to keep account of moneys disbursed, etc.; (c) to take charge of the national debt and to pay off loans; (d) to take charge of moneys deposited by the masses under the same terms and conditions as ordinary mercantile banks; (e) to do the same as other banks in investing Government and private funds deposited with it; (f) to transmit for the Government all funds needed in the provinces, and that should be sent abroad. The above six clauses are the basis of a bank's existence.

There is also a further important matter to consider in such an institution, and that is the necessity of appointing as few officials as possible to such a bank in order not to interfere with the commercial nature of the place. Such a bank having been established, it will have to work in conjunction with the mint. The mint may be even made a department of the bank; if so, it would perhaps greatly simplify matters. With regard to the establishment of branch offices or agencies of the Government bank, they should be started as the need for them arises. Indeed, the present customs bank in the outports or any substantial financial institution may also be selected to take up the duties of such agencies in the usual manner like other bank agencies.

The first and most important idea in these suggestions is of course the making of a fixed rate in the exchange of silver currency and gold. The next idea refers to the extension of the first on the understanding that the first idea has been made a *fait accompli*. Should it be determined to put into practice these suggestions, there are yet details connected with them which may be entered upon as each question arises.

## VII.—A GOLD STANDARD FOR CHINA WITHOUT A GOLD CURRENCY.

[By a late member of the Institute of Bankers, London.]

### AUTHOR'S NOTE.

In acknowledging the compliment paid me by the Tientsin General Chamber of Commerce in ordering that this series of papers, which recently appeared in the Peking and Tientsin Times, be reprinted in pamphlet form, I wish to express the debt that I owe to the writings of Mr. A. M. Lindsay, C. I. E., a well-known authority on Indian currency.

For the scheme itself the greater part of the credit is due to Mr. M. H. Houston, a banker of experience and an associate of the Institute of Bankers, London, who has for some years devoted much attention to the question.

It is not maintained that the scheme in its entirety affords the actual solution of the currency problem, but it is hoped that it will be a *modus operandi*.

THE AUTHOR.

TIENTSIN, *March 9, 1903.*

“In 1889 Mr. Gladstone wrote: ‘Every wisely governed State should seek to have for its standard of value the commodity which is the

least subject to fluctuation; that commodity, as I conceive, is gold.' This opinion is confirmed by the desire shown by all civilized nations to maintain or secure a gold standard of value. The more generally gold is used, the more objectionable will a silver standard become, because the larger the area ruled by gold the more will the foreign exchanges of silver-standard countries be liable to disturbance."

So wrote a great authority<sup>a</sup> on Indian currency in the year 1892, when the finances of India were passing through the most serious and alarming difficulties into which the heavy fall in the sterling value of the rupee had brought them, and from which India was only rescued by the resolute and daring action taken by the government. She has, after a hard and stern fight, escaped from the meshes of financial embarrassment which at one time almost promised to drive her into insolvency and bankruptcy. Those who can remember the feeling in London ten years ago in respect to India, and the dark hints that were thrown out of her inability to face her sterling indebtedness, will remember with what a hopeless and gloomy feeling the announcement that she had closed her mints to silver was received. National loss and wreckage were foretold, and the chance of India's repudiating her sterling debts was almost openly discussed. In the happier days that have since dawned on India's finances, one is apt to forget the storm of ridicule and abuse with which the government's scheme was received. The commercial community of Calcutta openly laughed at the remedy, and there are even now those who will shake their heads and foretell a day of reckoning. And yet the committee, composed of some of the ablest financiers of the day, appointed in 1898 by the British Government to inquire into the Indian currency stated: "Experience gained since the mints were closed in 1893, and particularly that of the last eighteen months, appears to us to justify the anticipation that the existing rate of 1s. 4d. will, with possible temporary fluctuations, due to the course of trade, be maintained in future." Before the closing of the mints the rupee exchange was 1s. 2½d. and silver was 37¾d. Since the closing the exchange has, after falling considerably, remained for the last five years at 1s. 4d., though the price of silver has steadily fallen to 22d. (January, 1903).

In the unhappy straits into which China has been brought by the perverseness and incapacity of her own rulers, it may not be out of place to throw open the foreign press of China to the discussion of the really very serious and alarming crisis to which China is rapidly being swept. The drop in the sterling value of the tael affects us all, foreigners and Chinese Government alike, more or less. The exporter makes larger profits in taels. The importer finds his business deserting him or only possible at a loss or a very moderate profit.

The salaried man and the clerk who are paid in the currency of China find their salaries very seriously reduced when converted into sterling. It is all very well to say one can still live cheaply in China and that the tael will buy almost as many comforts as of yore. Granted that the purchasing power of the tael in China has not decreased as rapidly as exchange has fallen, the foreign residents of China almost without exception are not here to live and die. We all desire to return home when the opportunity comes, and many of us have present obligations to fulfill in sterling, so that from the Chinese officials' point of view it might almost be considered that any advice emanating from a foreign newspaper was prejudiced and likely to be

<sup>a</sup> Mr. A. M. Lindsay.

very little in the real interests of the Chinese Government. It would give us foreigners great pleasure if we could so express our views as to convince the Chinese Government that in this respect they should see eye to eye with us. Our interests and their interests are identical in so far as that we both wish to give a certain and fixed sterling value to the tael.

In studying and examining the steps by which the Indian government extricated itself from a most difficult and unpleasant position, and seeing how far the policy followed in India will help us in China, we have several important facts to bear in mind. First and foremost, India being part of the British possessions, there was no doubt that if the viceroy and his advisers followed the wishes of the India office, the British Government, with all the moral and financial support that goes with the name, would support and back the Indian government in any action it took. Furthermore, the country was well and beneficently ruled; its taxes and dues found their way to the proper quarter. The currency of the country was minted and coined by the government, which, as in England and elsewhere, made itself responsible for the soundness of the coinage. It was in the power of the government to reduce or increase the coins in circulation. As far as the internal currency was concerned things were on a satisfactory basis. Rupees of good and true weight and touch were issued from the government mints. An elaborate system of government notes payable on demand was in vogue. The fact is, the country was flourishing, and if it had not been for a yearly sterling indebtedness of some £17,000,000 India could have afforded to snap her fingers in the face of the world and say, "A gold standard for me? What do I want with a gold standard when my produce is being sought after in larger quantities, and when I am receiving far larger payments in my currency of rupees?" The fact is, it would appear that it is only when a country has payments to make in gold that the depreciation in the sterling value of her currency affects her.

China is in one respect in the same condition as India, in that she has incurred an enormous sterling indebtedness, which has to be met annually, and in payment of which she can only offer the greatly depreciated silver metal. If China, like India, could show a large balance of trade in her favor every year the difficulties would be materially decreased; but the fact of the matter is that China goes on her way piling up her indebtedness to gold-using countries both by incurring gold debts and by buying manufactures and goods which require to be paid for in gold.

In 1900 the foreign debt of China amounted to about £52,000,000. In 1901 she added to this amount the enormous sum of £67,500,000, thereby increasing her previous liabilities by 130 per cent. Now, these liabilities have to be met in gold. The gold equivalent of the tael is yearly decreasing as the sterling equivalent of silver lessens. Why is it that China, with this enormous load of responsibilities, which from no fault of her own is yearly increasing, does not take some step to try and keep herself from the inevitable pitfall to which she is hastening? And let every foreign resident in China realize that in so far as he is earning his living in China he is individually and personally interested in the financial condition of the country. We have only to read history to realize what an effect financial instability has upon the internal peace of a country. Let this vast and great country drift into hopeless financial distress and who will guarantee that the authority of the central government can be maintained? So far we

are all interested; but when it comes to the fixing of the sterling equivalent of the tael cries are heard on all sides that the export trade will suffer and that we shall be undersold by the few countries that continue to use silver. There is truth in the cry. It was the same in India. Tea planters petitioned the government against fixing the rupee. If it was decided to fix it, they prayed that it might be left at the level to which it had fallen and not be given an extra artificial value. Those connected with the Indo-China trade declared that their business would be ruined and that China would be induced to encourage her own industries instead of buying from India. The cry was again true. Manufacturing industries sprang up in China and the trade was, for a time at any rate, diminished. But look at the result. The finances of India are once more in a flourishing condition. She is able to pay her sterling liabilities without the fear that revenue may be too small for the purpose and she is able to control her own taxes and expenditure, which she could not efficiently do when it was not known how much the expenditure for her sterling debt was going to be. Sir David Barbour, the financial member of council, said in his budget speech: "Our financial position for the coming year (1893) is at the mercy of exchange and of those who have it in their power to affect in any way the price of silver."

The position of China now is that she has a vast sterling debt, in payment of which she can only offer a commodity rapidly decreasing in value. Is there any way out of the difficulty? Can China collect or borrow a sufficient amount of gold to enable her to start a gold coinage? Does she require to have an actual gold coinage in circulation in the country? If she gets the gold, how will it affect her external trade?

## II.

At this stage it may be interesting to examine shortly the objections that are often raised against a stable currency. It would be thought that it is hardly necessary to demonstrate that not only would a stable exchange be of advantage to the Chinese Government, but that it would also be of the very greatest advantage to all traders in China. A short extract from a letter written to the Darjeeling Planters' Association by the government of India in reply to a memorial on the subject of the closing of the mints deserves close attention:

"To sum up, the government of India are of opinion—

"That a country, as a whole, makes no gain in its international trade by a depreciation of its standard, since the extra price received for its exports is balanced by the extra price paid for its imports;"

"That the producer of an article of export may make a temporary and unfair gain from depreciation of the standard, at the expense of his employees and of other persons to whom he makes fixed payments;"

"But that this gain, while not permanent, is counterbalanced by a tendency to overproduction and consequent reaction and depression, by a liability to sudden falls in price as well as to rises, and by the check to the general increase of international trade which necessarily results from the want of a common standard of value between countries which have intimate commercial and financial relations."

The Indian Currency Commission of 1898, in commenting on the above, went on to say:

"We are unable to find that anything has occurred since the closing

of the Indian mints to silver to throw doubt on the soundness of the views expressed in 1892 by the government of India."

To return to China. The depreciation in exchange is assuming such a very serious aspect that all thinking men must be alarmed by the serious state into which the China trade is falling. The import trade is, from our own knowledge and from accounts that reach us from Shanghai, Hongkong, and elsewhere, almost at a standstill; the benefits that are accruing to the export trade are so delusory and temporary that a statement of the grounds on which advocates of a fixed exchange argue that the export trade of the country will be benefited may not be out of place.

Count Matsukata Masayoshi, H. I. J. M.'s minister of state for finance, in his official report for 1899 on the adoption of the gold standard in Japan, wrote:

"At that time (1893) Japan being a *de facto* silver country, the effect upon her of this sudden fall in silver was very great. Fluctuations in foreign exchange now became exceedingly frequent and unreliable. Business men lost a constant standard of value and became compelled to pay constant attention to changes in the money market, so that foreign trade tended to become largely a matter of monetary speculation. It became more and more hopeless to expect to see the healthy growth of trade, both home and foreign. Thus was impressed most clearly upon the minds of the financiers of the country the necessity of adopting gold as the standard coinage in Japan, that metal being least subjected to changes in its price and most fitted for use as the medium of exchange."

These are the words of a man who has succeeded in establishing, in spite of strong opposition, a fixed exchange for Japan.

Now, to use the arguments of an Indian currency authority,<sup>a</sup> one of the objections raised against a stable exchange is that "a falling exchange, by increasing the amount of silver money obtainable for a gold price, operates as a bounty on exports from China to gold-using countries, and it is said that if the China exchange is fixed exporters will be unfavorably handicapped with silver-using countries.

'Now, it will not be gainsaid that the proper function of money is to act as a medium of payment and a standard for deferred payments, both in internal and foreign transactions, and its work in connection with foreign exchanges can not be properly performed unless foreign exchange is steady. It is not the duty of money to stimulate exports, and as there are two parties to each payment, and money is merely an intermediary, it is obvious that what one gains in this way some one else must lose. Injustice of this kind should be stopped, and the monetary machine should be adjusted so as to carry out properly the functions for which it was designed. It might also be asked how much of a fall will satisfy China exporters.'" Statistics have been produced to show that a falling exchange does not in the long run stimulate production. We would not argue that there may not be a temporary stimulus, but the accrued benefit to the country in the end does not exist and is, on the other hand, positively harmful.

As has been said above, an unstable exchange checks the growth of international trade and engenders that lack of confidence as to the future which acts with such a deterrent and crippling force on trade. And it is found that not only is the unhealthy stimulus to export trade caused by a falling exchange temporary, but the cost of produc-

<sup>a</sup> Mr. A. M. Lindsay.

tion in the silver country is materially raised. This in China we all know means that prices rise in proportion as silver falls in price. For instance, who is the gainer by the rise in the tael value of produce? Possibly the producer, certainly not the foreign merchant. But more probably the almost entire benefit goes to the middleman, the exporter's compradore, and his go-betweens. The foreign merchant benefits by the fall in exchange in that he is enabled to make large profits by speculating in exchange, and waiting to fix the sterling equivalent of the tael amount he has paid for his merchandise in the hope that exchange will drop and that he will receive considerably more than he paid for it in local currency. Apart altogether from the inevitable but slow increase of wages, transport, etc., the cost of production is raised in proportion as exchange falls, because prices are pushed up by excessive competition and the clever combination of Chinese sellers, so that the foreign exporter is unable to benefit by the higher price he is able to obtain, and the profit passes from him to the native seller. It is then difficult to see in what way exporters benefit except in the temporary stimulus given to trade; but this stimulus is on its part counteracted to a great extent by the fact that the middleman and not the actual producer procures much of the profit.

### III.

Before bringing ourselves face to face with the question we have started out to discuss, namely, the feasibility of China securing a fixed exchange by means of a gold standard, it may be of general interest and of benefit to the question under discussion to outline the course of silver since it first began to depreciate in value. Silver first began to fall in price in 1872, and it is pretty generally known that the number of silver-using countries is now limited. The latest addition to the gold-standard countries is Japan, which inaugurated a gold coinage in 1897 and which since that date has enjoyed the boon of a stable sterling exchange at or about 2s. per yen.

Prior to the year 1872 the price of silver averaged 60d. per ounce. In 1871, however, the establishment of the German Empire and the steps that were immediately taken to replace with gold coins the silver currency formerly in use may be said to mark the beginning of the downfall of silver, which seems to be unending. The Government of United Germany undertook the unifying of the coinage systems in vogue in the different portions of the Empire, and issued a new coinage law, stopped coining standard silver pieces, and in 1873 put into effect the gold-standard system. In effecting her monetary reform, Germany called in all her old silver coins, and soon began to sell large quantities of silver, which had the immediate effect of causing depreciation. Up to the end of March, 1893, there had been sold by the German Empire 7,205,152 pounds of fine silver, as the result of melting silver coins of the nominal value of 672,862,730 marks. The bimetallic countries of Europe saw the danger of being turned into silver countries, so that they were constrained to adopt a policy which had the effect of making them gold-standard countries. The Latin Union, consisting of France, Belgium, Italy, Switzerland, and Greece, was forced to first limit, and then suspend, the free coinage of silver.

In 1873 the United States of America adopted a gold standard. In 1874 Sweden and Norway, and in 1875 Holland, stopped the free coinage of silver. These measures all assisted to bring about the sudden fall in the price of silver, so that in 1876 the average price for the

year was 52 $\frac{3}{4}$ d. per ounce, having touched during the year as low as 46 $\frac{3}{4}$ d. per ounce.

At this stage a steadiness was imparted to the metal, as will be seen from the following table:

Year.	Average price of bar silver per ounce.	Output of gold and silver in the world.		Year.	Average price of bar silver per ounce.	Output of gold and silver in the world.	
		Gold.	Silver.			Gold.	Silver.
		<i>Ounces.</i>	<i>Ounces.</i>			<i>Ounces.</i>	<i>Ounces.</i>
1876 -----	52.750	5,016,488	67,753,125	1889 -----	42.688	5,973,790	120,213,611
1877 -----	54.813	5,512,196	62,679,16	1890 -----	47.750	5,749,506	126,095,062
1878 -----	52.563	5,761,114	73,385,451	1891 -----	45.063	6,320,194	137,170,919
1879 -----	51.250	5,262,174	74,383,495	1892 -----	39.813	7,094,266	153,151,762
1880 -----	52.250	5,148,880	74,795,273	1893 -----	35.625	7,618,811	165,472,621
1881 -----	51.938	4,983,742	79,020,872	1894 -----	28.875	8,764,362	164,610,394
1882 -----	51.813	4,934,086	86,472,091	1895 -----	29.875	6,641,337	167,288,729
1883 -----	50.625	4,614,588	89,175,023	1896 -----	30.75	9,817,991	165,100,887
1884 -----	50.750	4,921,169	81,567,801	1897 -----	27.4375	11,489,291	183,096,000
1885 -----	48.563	5,245,572	91,609,959	1898 -----	26.9375	-----	-----
1886 -----	45.375	5,135,679	93,297,290	1899 -----	27.4375	-----	167,250,000
1887 -----	44.625	5,116,861	96,123,586	1900 -----	-----	-----	173,000,000
1888 -----	42.875	5,330,775	108,827,606	1901 -----	-----	-----	175,750,000

In the year 1878 what is known as the Bland Act was passed by the Legislature of the United States, which required the Government of that country to purchase not less than \$24,000,000 and not more than \$48,000,000 worth of silver per annum, and which would be equal to a consumption varying from 20,625,000 to 41,250,000 ounces in the year. Under the authority of that act the Government purchased yearly the minimum amount required.

Notwithstanding those purchases, the price of silver fell from 52 $\frac{3}{4}$ d. per ounce, the average of 1878, to 42 $\frac{1}{4}$ d. per ounce in February, 1890. In that year what is known as the "Sherman Act" was passed by the United States Legislature, under which the duty was imposed on the Government of purchasing no less than 54,000,000 ounces a year in lieu of the amount to be purchased under the Bland Act. The effect of the obligation to purchase silver to the value of about six millions sterling beyond the purchases required under the earlier law, coupled probably with the anticipation that further legislation and perhaps free coinage of silver would follow, was a sudden and considerable rise in the value of silver, which culminated in the month of September, 1890, when it reached the point of 54 $\frac{5}{8}$ d. per ounce. There was, however, a speedy decline from this point, and silver has never regained its former position.

The Bland Act was repealed in 1893 and the deathblow was given to the idea of free coinage of silver or a bimetallic currency. From the table given above it will be seen that in 1895 and 1896 silver showed signs of appreciation. This was merely temporary and was due to very obvious causes, one of which was an erroneous supposition (as it proved) that the Chinese indemnity due to the Japanese after the Chino-Japanese war would be paid in silver, while the other was a widespread conjecture that the silver party would win in the Presidential election of the United States. When, therefore, these suppositions were both proved to be erroneous, silver again continued on its downward path.

The years 1899 and 1900 saw a rise in price principally brought about by the exceptional circumstances then in force. One was that the Indian government, which since the closing of the mints had coined few rupees, was forced by the strong demand for currency to purchase silver in large quantities for coinage purposes, and if it had

not been for famine and the consequent bad effect on trade it is probable that the government would have continued buying for some time longer than they did. The purchases, however, were sufficient to force the price of the metal up to  $30\frac{3}{16}$ d. per ounce in October, 1900. Doubtless the situation in China at the time had also an effect on the market, for a large number of troops had been landed in or were on their way to China, and their financial requirements had to be satisfied. Purchases by China were added to the strong demand from India, and the consequence was the price was for a time forced up.

#### IV.

Before proceeding to propound a scheme for the adoption by China of a gold standard, which scheme it is hoped will prove a practicable and inexpensive way for the Government to put China on a gold basis, it will be of general interest to shortly outline the steps taken by India and Japan to formally discard the silver standard.

On the 26th of June, 1893, the government of India issued a notice that the Indian mints were no longer open to the free coinage of silver. Prior to this date all silver handed to the mint authorities for coinage could be melted into rupees for a fixed seigniorage. As is probably well known, there were at that time two ways of remitting money to India.

One was to go to the India office in London and buy Government bills on India, for which payment in sterling had to be made in London, and in exchange for which rupees were paid in India either in Bombay, Calcutta, or Madras. The other method was to purchase bar silver in London and ship it to India for coinage into rupees. The closing of the mints left only one door open for remitting funds to India, and that was to buy council bills. There were, of course, one or two minor ways of financing payments in India, such as buying Government rupee paper in England, remitting it to India for sale there, and supplying the small demand for gold; but the principal avenue by which agents in India could be put in funds was by purchasing council bills. This left a large power in the hands of the financial advisers of the Indian government in London, insomuch that they were able to dictate their own terms to would-be purchasers. For instance, for some considerable time they refused to sell drafts on India except at considerably more than the open market rate. The consequence was that for some time they were unable to sell council bills in London at all, and in order to meet their sterling indebtedness they were forced to borrow money in London, their difficulties having been increased by the fact that owing to war and famine the Government treasuries were depleted and they had no money in hand wherewith to meet council bills. In the end, however, the contraction of the rupee currency, together with other more potent causes, forced exchange up to the Government's limit of 1s. 4d.

At the same time that it closed the mints Government offered to give 15 rupees for every pound sterling tendered to it. This was done with the idea of accumulating a sufficient reserve in gold to, if necessary, inaugurate a gold coinage in the future.

All, then, that India did was to (1) close the mints to the free coinage of silver; (2) offer to except £1 in exchange for 15 rupees.

At the time the mints were closed the price of bar silver was  $37\frac{1}{4}$ d. per ounce, and the sterling exchange was 1s.  $2\frac{5}{8}$ d. per rupee. For the past five years the sterling exchange has been 1s. 4d. per rupee,

although the price of bar silver has fallen to below 22d. per ounce (January, 1903). The intrinsic value of the rupee is at present only  $7\frac{1}{2}$ d.

Japan, on the other hand, decided to start a gold coinage. The amount of reserve required for gold coinage is necessarily large; but, through her successful war with China, Japan found herself in possession of a sum of 231,500,000 Kuping taels, which she elected to receive in gold and for which she received the sum of £38,000,000. She was, therefore, in possession of sufficient funds in gold without the necessity of borrowing the money on her own account. On the 29th of March, 1897, the law was passed which turned Japan from a silver to a gold currency country.

The steps taken by Japan were:

- (1) The silver yen in currency were called in.
- (2) Gold coins were issued in place of the old silver ones.
- (3) A subsidiary coinage of silver, nickel, and bronze coins was minted.

(4) The greater part of the old silver yen was sold in Shanghai, Hongkong, and the Straits at prices slightly over the price of silver in London, and the proceeds in gold bullion remitted from London to Japan.

At the time the currency reforms were passed the sterling exchange was 2s. per yen, whilst the price of bar silver was 30d. per ounce. Since 1897 the sterling exchange has remained steady at or about 2s. per yen, though the price of bar silver has dropped to below 22d.

## V.

### A SUGGESTED SCHEME.

In recommending that the following steps be taken by the Chinese Government it should be borne in mind that these recommendations are not those that would have been made if we had been dealing with a country with a strong central government like India or Japan. It is hoped, however, that they will be found practicable in China, where, in view of the deeply ingrained conservatism of the people and the fear that the Government is hardly strong enough to enforce at once sweeping changes in the currency, it has been felt that a slow and gradual reform is the only remedy possible.

The suggested steps are divided into three parts, with intervals of one year between each. These intervals are in order to allow time for the innovations suggested in Part I to find their way into public favor and to place the Government in a position to more effectively take the steps recommended in Parts II and III. Put briefly, the scheme is:

The establishment of a national bank.

The institution of a tael coinage.

The closing of China to the free import of silver.

The acceptance by China of gold in exchange for her new silver coinage.

The establishment of a "China office" in London and New York.

It is hoped that the scheme, or a modification thereof, will prove a simple remedy, perfectly practicable to China, and which will serve to put the sterling exchanges on a stable basis and the finances of China in a sound condition.

Without waiting to discuss in detail each recommendation, the scheme is here laid down in full, and we will then proceed to discuss

the arguments which have weighed with us in favor of the steps recommended; but it may be as well to state at once that one of the greatest recommendations of the scheme is that it entails little or no expense on the Government.

*Scheme for the adoption by China of a gold standard.*

PART I.

- (1) That a national bank be established, having its head office in Shanghai, with subagencies in Peking, Tientsin, Hankau, and Canton.
- (2) That a silver currency of tael coins be instituted, in which half-tael coins of the same fineness as the tael coins be issued with a subsidiary coinage in fractions of the tael.
- (3) That the minting of China dollars cease.
- (4) That the exclusive right to mint silver coins be vested in the national bank.
- (5) That the plant, machinery, and, as far as possible, the personnel of the present Chinese mints be taken over by the national bank.
- (6) That the national bank be authorized to issue notes repayable on demand in the new tael coins, provided a sufficient reserve in bullion (say 50 per cent of the note issue) is kept in hand.
- (7) That the national bank under the management of skilled foreign bankers be controlled by a Chinese board of directors in Shanghai, who shall be directly responsible only to the board of revenue in Peking. That the Shanghai board be authorized to invite two or three of the leading foreign merchants in Shanghai to assist them in their deliberations.
- (8) That the Government keep their balances with the national bank, and remit their revenues through the same channel.
- (9) That in order to guarantee the maintenance of the necessary cash reserves in the vaults of the bank, the inspector-general of customs shall depute officers to periodically inspect the books and cash reserves.
- (10) That during a period of two years from the establishment of the mint the present sycee shoes be exchangeable on demand for the new tael coins, and that after the period of two years the circulation of sycee shoes be declared illegal.
- (11) That newly minted tael coins be issued only in exchange for the sycee shoes tendered during the interval of two years.
- (12) That all persons exchanging sycee shoes in accordance with paragraph 10 be given the option of payment in the national-bank currency notes.
- (13) That imperial edicts be issued commanding that the new tael coins be accepted in payment of produce, and stating that in two years' time they be the legal medium of exchange. The edicts should also state that the interval of two years is given as it will take considerable time for a sufficient number of new coins to be minted. And it should further be definitely stated that after two years the only legal tender will be the new tael coins or the currency notes issued there-against.
- (14) That during a period of two years from the date of establishment of the mint the export of tael coins be forbidden.
- (15) That a monetary conference be immediately summoned to which Great Britain, the United States of America, Germany, and Japan be invited in conjunction with Hongkong, the Straits, and any further silver-using countries that are willing to participate.

*Interval of one year from date of establishment of the mint.*

#### PART II.

- (1) That the minting of sycee shoes be declared illegal.
- (2) That the import of dollars be prohibited.
- (3) That for a period of six months dollars be exchangeable for tael coins at their intrinsic tael value.

*Interval of two years from date of establishment of the mint.*

#### PART III.

- (1) That the import of silver be forbidden.
- (2) That the circulation of sycee and dollars be declared illegal.
- (3) That the Chinese Government offer to give eight new tael coins in exchange for one pound sterling or the equivalent weight in fine gold (i. e., at the exchange of 2s. 6d. per tael).
- (4) That gold in the above ratio be receivable at the custom-houses or in payment of Government dues, at the option of the payer.
- (5) That no fresh coins beyond those issued in accordance with paragraph (3) be put into circulation.
- (6) That any profit on the coinage of taels above the cost of maintaining the mint be held in gold in the vaults of the national bank as a special reserve and be not credited to the revenue nor held as a portion of the ordinary balances of the Government.
- (7) That a "China office" be opened in London and New York for the purpose of providing for China's sterling indebtedness by selling tael drafts on China against the Government balances in the hands of the national bank in exchange for sterling payments in London or New York.

#### VI.

##### SOME EXPLANATORY REMARKS.

*That a national bank be established, having its head office in Shanghai, with subagencies in Peking, Tientsin, Hankau, and Canton.*

*That the national bank, under the management of skilled foreign bankers, be controlled by a Chinese board of directors in Shanghai, who shall be directly responsible only to the board of revenue in Peking. That the Shanghai board be authorized to invite two or three of the leading foreign merchants in Shanghai to assist them in their deliberations.*

*That in order to guarantee the maintenance of the necessary cash reserves in the vaults of the bank the inspector-general of customs shall deputy officers to periodically inspect the books and cash reserves.*

The first crying fiscal reform that China needs is the institution of a currency. The easiest way to carry out this fiscal reform is to create a great national bank in which Chinese, foreigners, and foreign governments have confidence. The national bank in the duties it will be called upon to perform will be of no earthly use if it does not carry with it on the face of its management and constitution the hall-mark of integrity and straightforward financial dealings. The reserves of the country are under the scheme to be left in the hands of the bank, and unless complete confidence is felt by both foreigners and Chinese in the bona fides of the management the bank might as well be non-existent. For these reasons the suggestions have been made as above.

Unless the commercial integrity of the bank is assured from the outset and its freedom from official or other influences made apparent the very object of the bank being called into existence will be undone. The important point, and one which can not be too fully impressed upon the Government, is that the bank must be perfectly free from interference and the managers must be allowed to conduct the bank upon business principles, and business principles alone. The bank is to play such an important part in the currency reform that any tinkering with this important machine would cause distrust at the outset and paralyze any further efforts that were made to drag China's finances out of the mire. The easiest way to secure the confidence of the world, for it is the great world of the six continents that we wish to inspire with confidence, is to place the bank under the management of skilled foreign technical assistance.

The sole power to control the bank must lie with the board of revenue in Peking, and the board alone. The inspection of the books and cash reserves by officers appointed by the inspector-general of customs is important for the same reason. The Chinese Government must not forget that in other countries the national banks have the government of the country to fall back upon and the financial assistance of the government at their back in case of crisis. But in China, under its present method of government and its not too great reputation in the all-powerful financial world, the Government in the background is a very weak reserve, indeed, if we are to have a serious crisis in which commercial stability can only be secured by trust in the honesty and wealth of the Government.

It is proposed to make Shanghai the head office because the greater part of the foreign trade of China finds its way to the doors of Shanghai, and it is essential that the head office of the bank should be in touch with the great trade of the distributing center of China. Shanghai is at present the largest emporium of foreign trade, and it is there that the greatest banking facilities are required. The agencies have been purposely limited to Peking, Tientsin, Hankau, and Canton in order that the important duties of inspection may as far as possible be lightened and not fall too heavily upon the management of the bank. Were it to attempt to cope with more than the branches named, especially at the outset, the bank to be successful would require a large and untiring body of inspectors as well as a large foreign staff. It should also be borne in mind that the development of China is going to open up new trade centers, and it would hardly be politic to open branches in places that might after a few years prove to be no longer the centers that they now are.

Nothing has been said about the capital of the bank, for that is left to the discretion of the Government, but it may be incidentally pointed out that a bank already exists with agencies established at the ports named, which under skilled foreign management has successfully existed for the past seven years and which originally started with the idea of compassing almost the same ends as the national bank. To increase and augment the capital of the Imperial Bank of China would be an easy and inexpensive way of establishing the national bank required. The shareholders of the existing bank are solely Chinese, and it would be easy to raise the necessary funds from Chinese capitalists were they assured of the bona fides of the Government in the matter. In any case the few lacs necessary to bring the capital to the required amount could be readily advanced by the Government. If

thought desirable, an amalgamation of the Imperial Bank of China by turning it into the State Bank might be possible.

In regard to the expenses to be borne by the Government, it may be stated that once the capital is raised no expense beyond the cost of establishing the mints will be laid on the Government's shoulders. Any further expenses in connection with the upkeep would be borne by the bank in return for the right to issue currency notes.

Since this scheme was devised a certain amount of prominence has been given to a bank to be established by His Excellency Yuan Shih Kai. Let his excellency be warned that in the great fiscal reform to which we hope China is soon to be pledged a vast responsibility will rest with the national bank, and unless everyone, Chinese and foreigners alike, is assured that the bank is absolutely independent of official interference and improper mandarin or court influence the scheme is doomed to failure.

We think that a bank on the lines laid down by us, managed by skilled foreign bankers, and open to the frequent inspection of the customs authorities is the only one that is likely to give the necessary confidence. It can not be too often impressed upon the Chinese authorities that the whole success of any fiscal reform on the lines laid down by us, on which lines his excellency's reforms are also doubtless laid down, depends entirely for its success on the amount of confidence engendered in both commercial and financial quarters. The reforms suggested affect the whole Empire, and the limiting to one province of benefits accruing thereto hamper the growth and sap the whole strength of the Empire of China.

*That a silver currency of tael coins be instituted, in which half-tael coins of the same fineness as the tael coins be issued with a subsidiary coinage in fractions of the tael.*

The first step taken by all countries that have joined the gold-standard countries has been to stop the free coinage of silver. Now, in China we are at the very outset at a disadvantage, for there is no currency proper beyond the copper cash. The tael is merely a silver weight. Supposing the Government of China said, "We will stop the import of silver," how are they going to set about it? Sycee at present bears no Government chop or stamp whereby false weight or low touch silver can be distinguished at a glance. Let the Government forbid to-morrow the import of silver, how is it to know that half the shoes of sycee that eventually find their way into its treasuries have not been melted from silver imported subsequent to the promulgation of its edict? It will be said that the customs will have to see to it that no silver is imported from abroad. Certainly that duty would devolve on them as far as they were able to carry it out, but who is going to prevent silver finding its way into ports and places where the customs are not established? Who will prevent silver from pouring over the vast land frontier? And if temporarily a stable sterling exchange was established and the intrinsic value of the shoe of sycee was less than the token value for which it was circulating in the country, who is to prevent the tremendous influx of the metal that would immediately take place? Not the customs, certainly. Means would be devised for evading their scrutinies. The lucrative pursuit of issuing shoes of sycee which cost a part only of the amount for which they were circulating in the country would find many devotees, who would risk their liberty for the quickly earned profit. For, once the shoe of sycee had left the melter's hands, it would be difficult in

the absence of proper Government weight and marks to fasten the blame on the real culprits.

The first thing then that would appear to lie at the door of the Government to do is to form a national currency. This duty has already been recognized by the Government, for under the sixth article in the recent treaty with Great Britain China undertakes to take the necessary steps to provide for a uniform national currency which shall be legal tender for all duties, taxes, and other obligations.

Now the question immediately arises, is it to be a silver or gold currency? A gold currency may, we think, be summarily dismissed, at any rate for the moment, owing to the difficulty of accumulating a sufficient supply of gold, and also owing to susceptibilities and "old custom" to be overcome before a gold coinage could be a success. We are then left with the alternative of a silver currency. Now, as it is of importance in currency reforms, especially in ultra-conservative countries, to "disturb existing arrangements as little as possible," it is suggested that there be as little interference as possible in the present standards of value. We have to consider the internal trade of the Empire and the poor cooly, to whom an innovation in the currency that gave him his earnings in a different method from that in which his fathers had received them would drive into doubt and fear at once. It is then suggested to leave the cash coin in its present position, merely stipulating that as opportunity offers the copper currency should be improved by new issues. As regards the tael weights of sycee, it is proposed to replace these with new silver coins. Let the Government through the mint authorities proceed to design and prepare a silver coin of the value of one tael. We may as well state here that our only reason for calling the new coin a "tael" instead of a "dollar" is that the tael is already a recognized Chinese standard, whereas the "dollar" is of foreign importation. It really does not signify what the coin is called, but we suggest the name of "tael" be adopted, as it may be of assistance in helping the reform in this conservative country. Now, a coin of the value of 2s. 6d. will be of too high value for the daily retail trade transactions, so that it is suggested to mint half-tael coins of the same touch and fineness as the tael coins, which will doubtless largely fill the place of the present dollars. The recommendation that subsidiary tael coins be minted needs no explanation, for they will be required to fill the place of the existing subsidiary dollar coins.

*That the minting of China dollars cease.*

This follows as a direct corollary from the previous clause. If a new currency is to be instituted the Government must see to it that the currency is uniform. All coins issued after the mint has been established must emanate from the mint alone, and in order to make the coinage uniform the existing mints must cease issuing coins. There is no doubt that this measure will be strongly opposed by the provincial mint authorities, but if the central Government in Peking satisfies itself that in order to establish a uniform currency coins can only emanate from one center, it is their duty in the interests of the whole Empire, which they undoubtedly have at heart, to close the present mints. If desirable, some provision could be made to compensate the viceroys whose mints are closed for the loss of revenue. The Government in Peking has only to consider that the profits at present made by the mints would pass to themselves, and that they would be in a position to allow some sort of compensation if it were thought desirable.

*That the exclusive right to mint silver coin be vested in the national bank.*

This clause, taken with all the foregoing, is essential to the establishment of a uniform national currency. Our object is to eventually prohibit the free coinage of silver, and in order to carry this into effect it is necessary to establish a government coinage. A uniform currency is a great fiscal reform, whose effects on this vast Empire will be far-reaching and productive of permanent good. If more than one center is allowed to mint coins there is no doubt that in time the currency will become debased. It has also to be remembered that under the stable sterling exchange for which we are fighting the profits will increase as silver falls, and these profits, instead of being in the hands of the Central Government, will pass to others who have not necessarily the good of the whole Empire at heart and who might be inclined to over-issue the silver coins. It can not then be recommended too strongly that the exclusive right to mint silver coins be vested in the national bank.

*That the plant, machinery, and as far as possible the personnel of the present Chinese mints be taken over by the national bank.*

The clause has been added in order to facilitate the closing of the present mints, and in order that the central government may not be accused of acting harshly and unfairly.

*That during a period of two years from the date of establishment of the mint the export of tael coins be forbidden.*

It is possible that some difficulty may be experienced by the mint in keeping pace with the number of tael coins required, and in order that these difficulties may not be aggravated by the coins being exported, it is suggested that if silver has to be shipped out of the country sycee or dollars be sent in place of the new coins.

#### VIII.—RECENT DECREES OF THE CHINESE GOVERNMENT.

[From the Annual Report of the Director of the Mint, 1901, page 267.]

##### CHINA.

CONSULATE OF THE UNITED STATES,  
Nanking, September 2, 1901.

SIR: I have the honor to transmit (as an inclosure) herewith a printed translation of an imperial decree concerning the closing of certain mints in China, and also commanding the use of certain dollars minted in Canton and Hupeh mints, to be used throughout the Empire in the payment of tribute and taxes, at a fixed ratio.

Will you please forward the same to the Treasury Department?

I am, etc.,

WM. MARTIN,  
Consul of the United States.

Hon. DAVID J. HILL, *Etc.*

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##### *Imperial decrees.*

[By telegraph from Hsian.—Specially translated for the North China News, August 26.]

(1) Pin Liang is appointed to take the place of Ch'ang Keng as Tartar general of Ili, and the latter is ordered to Peking to do duty in the capital.

(2) Commending and degrading certain censors of Peking, in accordance with the request of Chang Pai-hsi, president of the board of works.

(3) A decree approving of the general use of the Government silver dollar and subsidiary silver coins throughout the Empire. Owing to the equitable weight and standard silver used in coining the above money in the Canton and Hupeh mints (both of which were started by Viceroy Chang Chih-tung, translator), it is commanded that the coins made at these two mints be regarded as the standard Government money, and the mints of the other provincial capitals are therefore to be closed. Provincial officials desirous of obtaining silver dollars, etc., may do so by sending pure silver ingots to either the Canton or Hupeh mint for coinage into dollars, 20, 10, and 5 cent pieces. There need hereafter be no necessity of establishing local mints for the purpose in the provinces needing these coins. Tribute and taxes may also in the future be paid to Government with this silver money in the proportion of 7 parts silver sycee and 3 parts silver dollars, coined at the mints above named, and at the rate of 72 tael cents (7 mace 2 candareens) to the silver dollar.

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LEGATION OF THE UNITED STATES,

*Peking, September 12, 1901.*

SIR: I have the honor to inclose to you herewith translation of an edict published in the Peking Gazette of the 8th instant.

The following interesting notes, explanatory of the subject-matter of this edict, have been furnished me by Mr. Williams, Chinese secretary of the legation:

1. The various mints of China are provincial, not national, undertakings, but the imperial sanction must be obtained. These mints are at Canton, in Kwang Tung; Fuchau, in Fukien; Nankin, in Kiangsu; Wuchang, in Hoo-pe; Chungking, in Szechuen; Tientsin, in Pechili; Mukden and Kirin, in Manchuria.

2. The Chinese are very conservative, and although a silver coinage is needed, as shown by the large and constant importation of Mexicans, it is difficult to get a new coin into circulation. The old United States trade dollar, although superior to Mexican, failed for this reason. Custom is all but omnipotent. Though Mexicans circulate in many places along the seaboard and in the Yangtze Valley, in other places (Nganhwei) only old Spanish dollars (carolus) will be taken, while in the interior of the north nothing but sycee is acceptable. In many cases confidence has been destroyed by coinage of varying fineness or weight, due to dishonesty of mint officials; in other cases by attempts to force the coin into circulation at an artificial value.

3. The treasury, or Government tael, called Ku-ping tael, is one of 25 or 30 different varieties of the tael, or Chinese ounce, nominally  $1\frac{1}{2}$  ounces avoirdupois, and varies from 520 to 283 grains.

There is no coined tael, and a tael of silver is a variable quantity, depending upon weight and fineness of the silver.

4. The attempt to fix a definite rate of exchange will probably fail, as all attempts have done, since the value of the dollar in taels depends upon the supply of dollars, or bullion, and the demand for either. At certain seasons in Shanghai, the dollar being scarce, has risen to 0.78 taels (haikwan), and in 1899 its value in customs statistics was given as 0.653. Mexican dollars are continually being

imported, and affect the ratio of exchange. One port (Shanghai) alone imported \$7,549,890 Mexican in 1899, the net import of silver for all China for that year being valued at 1,271,444 haikwan taels.

5. Small subsidiary coins have been minted in large quantities in recent years. The mints at Tientsin, Wuchang, Fuchau, and Canton in 1897 coined the following number of pieces:

50-cent .....	214,796
20-cent .....	31,852,571
10-cent .....	17,892,931
5-cent .....	66,921

The demand for these has been increased by scarcity of cash, ascribed to various causes—increase in population, melting to obtain copper, illicit export, etc. The cash is greatly debased, which leads to hoarding or melting of best pieces.

6. The reluctance of people in many sections to receive the dollar makes it necessary to introduce it gradually. Familiarity and confidence will no doubt lead to its unrestricted acceptance for all debts, public and private.

7. Another instance of attempt by legislation to compel people to accept at same rate coins of unequal intrinsic value. But the guaranty of the Government that all will be received at the same rate by treasuries may lessen discrimination, perhaps.

There is no national coin but the cash. There is need of a good coin and a more rational coinage system generally. The present is the worst possible.

I have the honor to be, sir, your obedient servant,

E. H. CONGER.

Hon. JOHN HAY,

*Secretary of State, Washington, D. C.*

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### *Silver coinage.*

[Translated from the Peking Gazette of September 8, 1901.]

The following edict was received on the 13th of the seventh moon (August 26):.

In coining silver dollars there should be general agreement among the mints which are doing the work. This is much more advantageous than working independently. We ought to decide clearly upon certain regulations. It remains, first, for the various treasuries, both in the capital and in the provinces, in collecting revenue and in making payments, to settle what percentage may be paid in dollars. This will promote confidence and secure a freer circulation.

Of the provincial mints which have been coining dollars during the past year only two, those of Kuangtung and Hupeh, have maintained an unvarying standard of fineness, and their coins have found an easy circulation along the Yangtze and the seaboard. These two provinces therefore should increase their purchases of silver and make further coinage of dollars uninterruptedly. It is also permitted that payments due from those provinces to Peking be appropriated for this purpose, the value of each dollar being fixed at 72 treasury tael cents (0.72 tael). They should also continue their minting of small silver pieces, which are still more convenient for the use of the people.

On every occasion of transmitting money to Peking it is permitted to pay three-tenths of it in dollars. The whole amount of the seigniorage belongs to the Government.

Besides this, every province may send its silver to be minted (by the two mints above mentioned) and need not establish their own mints. The money payments which they owe to Peking they may appropriate for this purpose. In the collection of provincial taxes, customs, and likin dues it is also permitted to pay three-tenths in dollars. The various departments and districts, in transmitting money to the provincial and taotai's treasuries and the various provinces in their payments to the board of revenue, may all make their payments in accordance with this rule, i. e., three-tenths of silver dollars. The appropriation for the various salaries and wages have already been made upon this plan of three-tenths. It is strictly forbidden to the yamen clerks to create difficulty by picking and choosing (the dollar of one mint in preference of the other) and such like abuses. The same rule must be observed in collecting and in paying out, and on no account must any prejudice be shown in favor of one mint against the other.

Thus the circulation will gradually become easy, and with the lapse of time it will become possible to increase the proportion in which dollars may be used in public payments and we may look forward to a time when there will be no obstacle to their use. Let the board of revenue and the various provincial authorities join together in the observance of these commands, and let the viceroys and governors of Kuangtung and Hupeh issue strict orders to the officers of their mints to increase the number of efficient workmen and give greater care to the process of minting. Every effort must be made to prevent the slightest difference in the fineness of the dollars, and excellence of workmanship should be sought after. Should any irregularities or lack of uniformity appear, the officers responsible will be impeached and severely punished; but those who conscientiously attend to their duties and whose work is successful and without faults, will be rewarded as an encouragement.

As to the amounts of silver to be purchased and coined and the number of dollars to be minted each month, these items must be reported quarterly to the board of revenue for its consideration, so that great carefulness may be maintained.

Respect this.

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*Translation of an imperial edict issued April 22, 1903, in the Peking Gazette, and reproduced in a Shanghai leading paper.*

[Submitted by the Chinese representatives at the meetings in London.]

It has been a recognized principle that the capability of a nation to exist as such entirely depends upon two things, the proper adjustment of its finances and the employment of competent persons.

As the present situation is very critical, and the national finance is in a great strait, the Government and the people are both suffering from this state of things. There would be no prospect of any improvement to be made in our fiscal policy unless this question were taken up and thoroughly studied in all its bearings, and such measures as are dictated by the necessity of the day were taken.

We hereby command Prince Ching and Chu Hung Chi, in conjunction with the board of finance, to consider carefully all necessary steps

to make improvements in that direction and carry them out with diligence.

At present the silver coins used in different provinces are of different designs and quality, and their weight is also not uniform. This state of things entails a great inconvenience to the mercantile class, and it is therefore very imperative that a uniform device for silver coin should be designed, and a mint should be established in Peking for the purpose of such coinage. As soon as a sufficient amount of such coin shall have been turned out for circulation, all national revenues, custom duties, etc., shall be collected and all public expenses shall be defrayed in that coin and that coin alone, with the view that the abuses of exacting money for making up alleged insufficiency in weight of silver ingots which are now used may be put an end to altogether. At any rate, uniformity must be preserved with regard to all the moneys received or sent out by the board of finance or by various provincial treasuries, and no new names shall be invented for that purpose to create thereby divergences.

We also command you to make exhaustive investigations as to how to frame satisfactory regulations, and submit them to us in regular order for enforcement.

In short, this question is of great importance to our Empire, and will be of great benefit to the high and the low. You, a prince and a minister of the state, are required to carry this out with undaunted courage, unflinching energy, and strong determination, in order that our currency, may be improved, and the benefit therefrom will be so widespread as to gratify our earnest desire to benefit our people by adopting necessary reforms.

Respect this.

#### IX.—THE HONGKONG CURRENCY QUESTION.

[From the North China Herald, March 5, 1903, pages 413-414.]

FEBRUARY 28.

The discussion that took place in the chamber of commerce at Hongkong on the 18th instant on the currency question in Hongkong is a very interesting one, but it is not so interesting as it would have been had the question been the direct one whether the gold standard should be adopted in the colony or not. As our readers already know, the resolution moved by Mr. E. Osborne was: "That in the opinion of this meeting it is desirable the Straits Currency Commission should extend its inquiries to Hongkong, with a view to ascertaining whether reform of the colony's currency arrangement is desirable," a somewhat tentative resolution after all. The meeting was opened by a speech from the chairman, Mr. C. S. Sharp, who explained that the committee of the chamber which he represented had had no intention to shelve the subject or stifle discussion of it by the chamber when they declined to call a special meeting, but "they were unable to see their way to advocate the policy of this colony taking steps in regard to a change in currency measures apart from China, and they therefore felt that there were no reasons on their part for calling a general meeting."

They quite realized that if there was a sufficiently strong feeling on the subject it would be easy to get five members to sign a requisition for a special meeting, and this course had been followed. The committee did not overlook the advantage of securing stability, but there were a great many interests to be considered, and they saw grave

risks of eventual calamity and disaster if the colony entered upon any change of currency apart from China.

In moving the resolution already quoted, Mr. E. Osborne said that many residents of Hongkong disagreed with the committee. All, he said, admit "that a great loss has taken place in the shrinkage of capital and investments, and that the dollar to-day is worth only one-half of what it was ten years ago. Those who agitate for reform hold that an unstable currency restricts and hampers trade, and that a depreciated dollar means increased expenditure, shrunken capital, and reduced savings. On the other hand, there are those who contend that a depreciated dollar stimulates exports, that salaries rise in sympathy with increased expenditure, that larger dividends compensate for reduced capital, and in fact that everything is adjusted in course of time," but all, Mr. Osborne said, would join hands in seeking whatever made for sound, wholesome trade—trade which brings reasonable and certain profit to all concerned in it.

The prosperity of Hongkong is due to its unique position as the seaport for Canton and the neighboring districts north, south, and west, and to its being a first-class British fortress. It has no exports, and its imports are only the goods consumed on the island and the raw produce brought in for manufacture and reexport. On these imports the adoption of a gold standard will have no material effect; those now paid for in gold will so continue, and those now paid for in silver will continue to be paid for in silver, the only alteration that could arise being the creation of an exchange business between Canton and Hongkong. The adoption of a gold standard will not increase the cost of labor, because the laborer does not look at the coin itself, but at its purchasing power, and if he can get as much rice for a penny piece in Hongkong as for a 10-cent piece in Canton he will be perfectly satisfied with the penny.

"It is objected," said Mr. Osborne, "that imports intended for distribution in China will be bought in Canton instead of in Hongkong. Why? In any case the buyer has to pay the gold value of the goods, and Hongkong is a natural center of distribution, which Canton is not.

Then it is said that Chinese goods for export abroad will be bought in Canton instead of Hongkong. But so they are now; no Canton produce is bought in Hongkong. No change in the currency will rob Hongkong of its eminence as a transshipment port, because it is the only deep-water customs-free port available. There is no proof that Hongkong would lose the profit it makes by financing the Chinese interport trade; but it would gain by the retention in the colony of profits made in the colony, which are now invested elsewhere on account of the uncertain value of local securities. Three other objections Mr. Osborne noted: (1) That Chinese like the gambling element in the fluctuations of silver, but he believed that most Chinese preferred to work for a certain and steady profit; (2) that we should have to make good the loss on the British and Mexican dollars now in circulation, but the loss is already made and no one proposes to redeem them at an artificial value; (3) that the future silver tokens will be counterfeited in China, but "the same protection that guards the shilling and sixpence at home could be extended to guard them in Hongkong."

Turning to the advantages to be gained by the proposed change, Mr. Osborne asked if there was any man in the colony who could truthfully say that he had benefited by keeping his capital or investments in silver, and the dollar may go to 1s. 3d. or 1s., or even lower. And the gospel of adjustment is a fallacy.

“Salaries, investments, rates of interest on mortgage have not doubled since the dollar was twice its present value;” nor has cheap silver stimulated the exports of China. It is suicidal to wait until the Straits and China have thrown over silver, and Mr. Osborne painted a depressing picture of the disappointment and misery that have been caused by the fall in silver. With a gold standard we should find our level again; money would flow into the colony, industries and trade would flourish. The colony now is in an unsound condition because its expenditure is largely in gold and its income in silver. Mr. Osborne suggested the adoption of the English currency of pounds, shillings, and pence, importing the necessary coins and making them the sole legal tender, leaving the British and Mexican dollars to be sold at bullion rates. Before closing Mr. Osborne reminded the meeting that the resolution did not commit those who supported it to approval of a gold currency, but only of a full and independent inquiry. “In the meantime,” he said, “let us continue to help ourselves, especially as by so doing we may possibly influence China to adopt the one true standard of value under which the greatest nations of the earth have prospered and progressed.”

## II.

MARCH 2.

The resolution moved by Mr. Osborne at the recent meeting of the chamber of commerce in Hongkong was seconded by Mr. Playfair, chief manager of the National Bank of China, who began his speech by saying: “We are all heartily sick of silver; it is an utterly unreliable currency and we all see our little hard-earned savings melting away into nothing, like a lump of sugar in a cup of tea.” He repeated the dictum that “stability is the desideratum of Hongkong’s prosperity,” and ridiculed the idea that under any probable circumstances the trade of Hongkong would escape to Canton. He dwelt on the probability of a still further decline in silver and the present and future loss to the colony, whose expenditure is in gold and whose revenue is in silver, and which has “borrowed in gold and lost terribly in the transaction.” He showed how the salaries of nearly all employees in the colony had been put on a gold basis and how there had been the same distrust in India of the advantage of the change to gold, a policy which had been amply justified by the result. All that is asked for, he said, is an inquiry; it would probably be found better, as the Singapore chamber wrote to the Government there, that the suggested details of the scheme should not be made public beforehand.

Mr. J. R. Michael supported the resolution in an able speech. He said it would leave “a perpetual stigma on this important business community if the ‘chief objection’ of the chairman of the committee had been upheld, namely, an avoidance of a public discussion of this vital question.” Everyone in the colony was interested in the question, and the chairman was absolutely unjustified in assuming as he did that public discussion would be desultory and show no appreciable result and might create a bad impression. From the public discussion useful knowledge would be evolved, and to sit like Micawber “waiting for something to turn up” was a selfish, timid policy unworthy of Hongkong. The position of Hongkong was much the same as that of Singapore, and it was absurd to say that Hongkong must not divorce its currency from that of China, for the real universal currency of China is copper. Japan’s principal customer is

China, and yet the former country did not hesitate to adopt gold. All the experience of the past showed that the Chinaman, give him time, will adapt himself most firmly to a fixed standard. Mr. Michael demonstrated the absurdity of supposing that Canton could supersede Hongkong as a commercial center, and he noted as facts that: "(a) Hongkong is a nonproducing commercial port. (b) It is a commercial medium between the world and China. (c) Trade with Hongkong means virtually the trade of the world with China. (d) Over 90 per cent of the world's monetary standard is gold, and China's is silver. (e) A gold or silver currency in Hongkong can therefore have no effect, either good or bad, on the trade of the world with China."

Mr. Michael went on to show at some length that Hongkong would lose nothing of its trade by the proposed change, while its accumulated wealth would no longer go on dwindling day by day, foreign capital would be invited, and investors in China would send their savings to Hongkong, knowing that they would then be secure from depreciation.

Mr. R. C. Wilcox also supported the resolution. "We are met to-day," he said, "to consider what may, I think, without exaggeration be termed a crisis in the history of this colony, and I trust that in such consideration we shall neither be swayed by fears of the unknown nor biased by mere opinions as to our impotence in the matter." He showed at some length how the savings of the colony had fallen away in value, these savings being estimated at \$82,000,000 in real property and \$40,000,000 in loans on mortgage.

Holders of shares in joint stock concerns which had improved in value had to be reminded that of the reserve funds of those companies over \$11,000,000 were invested in mortgages. The Hongkong and Shanghai Bank had over \$46,000,000 of silver deposits, of which a fairly large amount belonged to Hongkong, and Mr. Wilcox showed how a deposit of \$1,000 on the 1st of January, 1902, showed a loss of £10 7s. 4d. on the 31st of December, after allowing for \$40 received in interest. He mentioned the case of an estate he had to realize which was worth £26,000 some twenty years ago. The securities in which it was invested had increased in value in dollars, notwithstanding which it only produced a little over £13,000 for division among the legatees. He had clung for a long time to the belief that the ratio between gold and silver would some day be adjusted, but that hope had been finally dissipated. "Are we to stand idly by," he said in conclusion, "and see the savings of a lifetime melt into space, leaving us to indulge in vain regrets for the fatuity that prompted us to pin our faith on its recovery and the apathy that induced us to acquiesce in the dictum that Hongkong must continue financially wedded to China?"

There were only two speakers against the resolution, Mr. Gershom Stewart and Mr. E. A. Hewett. Mr. Gershom Stewart's chief argument was that it is sometimes "better to bear the ills we have than fly to others that we know not of." Mr. Stewart objected to changing the currency of Hongkong just when the treaty of Shanghai had provided that China should have an equal currency spreading all over the country, Hongkong being commercially a part of China. This argument would have more weight if we found China preparing to carry out this provision. Mr. Stewart was not convinced that the Indian experiment was a success; he feared that if Mr. Osborne's resolution was carried it would be "giving another kick to the already very much depreciated dollar," and he said: "I will not give my vote to anything

which may tend to further depreciate silver." Mr. Hewett personally thought the arguments put forward by the supporters of the resolution very largely fallacious. He believed wages would rise with the change to a gold standard, and he contemplated with horror the loss to the colony if it had to redeem some 50,000,000 silver dollars at a fictitious value, which nobody had proposed to do. He entirely agreed with Mr. Stewart that it was better not to jump out of the frying pan into the fire. This, it may be remarked, is one of the proverbs that people constantly and absurdly use without thinking what they mean. Its real meaning, of course, is that a lingering death is better than a speedy one, whereas most people would prefer to be put out of their misery at once.

The chairman wound up the discussion with a few words in which he expressed a doubt whether the Straits Currency Commission knew anything about the China trade or the local conditions affecting Hongkong, and he repeated that the committee of the chamber, with one exception, would strongly disapprove of the adoption of a currency different from that used in China, "as they are fully convinced that it would work very serious harm to the business and prosperity of the colony." The weight of argument, it will be seen, was all on the side of the resolution, and the voting, by show of hands, was for the resolution—40 against 25—the smallness of the vote being due to the fact that many left the meeting before the speaking was concluded. The chairman then asked those present to record their votes on the cards supplied them, laying it down that only those were to leave this record who did actually vote, notwithstanding which 74 cards were collected. We have already published the names. The following analysis is from the Hongkong Daily Press:

Total membership of chamber.....	127
Number of members present who signed the attendance sheet.....	105
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Votes on show of hands:	
In favor of Mr. E. Osborne's resolution.....	40
Against Mr. E. Osborne's resolution.....	25
Total votes recorded.....	65
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Votes shown by signed voting cards:	
In favor of Mr. E. Osborne's resolution.....	40
Against Mr. E. Osborne's resolution.....	34
Total votes recorded.....	74
Members present who left no written record of votes.....	30
Members not present at meeting.....	23
Total membership.....	127

#### X.—ACTION OF THE CHAMBERS OF COMMERCE OF HONGKONG, SHANGHAI, AND TIENTSIN.

LEGATION OF THE UNITED STATES,  
*Peking, China, September 29, 1903.*

SIR: Continuing the subject-matter of dispatch No. 1352, of July 21 last, I have the honor to inclose copy of a letter addressed to the dean of the diplomatic corps by the general chambers of commerce of Hongkong, Shanghai, and Tientsin, urging the importance of monetary reform in this Empire, and asking that the representatives of the treaty powers lose no opportunity in urging upon the Chinese Government the imperative necessity of the early establishment of a uniform national coinage.

The diplomatic corps as a body will take no action thereon, and I shall not present the matter to the Chinese Government until again instructed by you as to the progress of the International Commission now at work upon the subject.

I have the honor to be, sir, your obedient servant,

E. H. CONGER.

Hon. JOHN HAY,

*Secretary of State, Washington, D. C.*

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[Inclosure No. — in dispatch No. 1399.]

*The Chairmen of the Shanghai, Hongkong, and Tientsin General Chambers of Commerce to Mr. Conger.*

SHANGHAI, August —, 1903.

SIR: We, the undersigned chambers of commerce of Shanghai, Hongkong, and Tientsin, respectfully beg to bring to your attention the serious disabilities under which commerce within this country labors by reason of the violent fluctuations in gold value of silver and the pressing need thereby occasioned for the prompt introduction of remedial measures.

In approaching this subject we are fully aware of the difficulties with which it is surrounded; but while in no way seeking to minimize these difficulties, we venture to think that if the Treaty Powers show their desire to render to China their sympathetic assistance she may be encouraged to take the initiative in endeavoring to extricate the country from the financial confusion into which it has drifted and to avert the ruin which further inaction seems to threaten.

Under clause 11 of the treaty recently concluded with Great Britain, China agrees to take the necessary steps to provide for a uniform national coinage, and it is in the fulfillment of this clause of the treaty (which to be effective must include the absorption of the provincial mints) that we recognize the preliminary step to the much-needed reforms.

It is hardly necessary to point out how essential it is to the powers carrying on trade with China, and no less China herself, that this question of a uniform coinage, as a preliminary step to the establishment of a currency on a gold basis, be taken in hand at once, nor, on the other hand, to demonstrate the dangers attendant on delay. It is only too well known by traders that the constant fluctuation of silver, converting as it may a profitable contract into an ultimate loss, engenders a feeling of insecurity in all commercial transactions which can not fail to hinder the expansion of trade.

Moved by these considerations, and feeling confident that whatever measures may subsequently be found to be desirable and feasible, the first step is the establishment of a national coinage, as provided by the treaty, we respectfully beg that the representatives of the Treaty Powers in Peking lose no opportunity of urging upon the Chinese Government the imperative necessity of taking this matter in hand without delay.

We have the honor to be, sir, your obedient servants,

CHAIRMAN SHANGHAI GENERAL CHAMBER OF COMMERCE.

CHAIRMAN HONGKONG GENERAL CHAMBER OF COMMERCE.

CHAIRMAN TIENTSIN GENERAL CHAMBER OF COMMERCE.

His Excellency E. H. CONGER,

*Minister of the United States and Doyen of the Diplomatic Corps, Peking.*

## XI.—RESOLUTIONS OF SHANGHAI GENERAL CHAMBER OF COMMERCE.

No. 1184.]

SHANGHAI, *August 15, 1903.*

*To the Secretary of the Commission on International Exchange of the United States of America, Room 28, Corcoran Building, Washington, D. C.*

SIR: I am directed to acknowledge receipt of letter of 29th June, asking for a copy of the resolution passed by this chamber in favor of a gold standard in China, and to inform you that the resolution referred to reads as follows:

“Having in view the fact that silver is subject to violent fluctuations and that China’s financial obligations, national and commercial, are now mainly, and in future will probably be entirely, with gold-using countries, this chamber is of opinion that the Treaty Powers should urge the Chinese Government to take the necessary steps without delay to provide for a uniform national coinage as a first step toward establishing the currency of this country on a gold basis at as early a date as practicable.”

I am, yours, faithfully,

LESLIE HUBILL, *Secretary.*

## XII.—FOREIGN TRADE OF CHINA AND STABLE EXCHANGE.

[Views of officers of the China Association.]

CHINA ASSOCIATION, *Shanghai, May 11, 1903.*

DEAR SIR: I now beg to return to your letter of January 30, with apologies from this committee for having left it unanswered so long. The question upon which you ask our suggestions, namely, “the policy to be adopted for the common benefit, with the purpose of securing some approach to stability in the exchange value of silver,” is so difficult and complex a one that it is almost impossible to express any opinion representing anything in the nature of a united view.

As a preliminary to an expression of any views, it would appear pertinent to give some attention to the question as to what has been the course of China’s foreign trade during the period of constant depreciation of silver. For this purpose, in dealing with China’s imports, the eleven years 1892 to 1902 are taken, the value of the haikwan tael in the first year being 4s. 4½d., and in the last 2s. 7½d., a fall of just over 40 per cent. In the following figures quantities will be dealt with as far as possible, as being a far better guide to the course of trade than values, and, moreover, though the values as returned by the imperial customs are useful as a general guide, we confess that we can place only a qualified reliance upon their accuracy.

First, then, as regards China’s foreign import trade, we will deal with it according to the classification adopted by the customs, namely: (1) Opium, (2) cotton goods and yarn, (3) woollen goods, (4) metals, (5) sundries.

## (1) OPIUM.

The importation in 1892 was 70,929 piculs; the importation in 1902 was 50,801 piculs, a decrease of 20,128 piculs, or 28.4 per cent.

The matter of the opium trade is, however, exceptional. The decrease in the importation of Indian opium will no doubt be welcomed by the “antiopium society.” The enormous increase in the

production of native opium, which is the cause of the decline of the foreign importation, is a fact which the society will receive with such satisfaction as the circumstances call for.

## (2) COTTON GOODS AND YARN.

	Imports.		Increase.
	1892.	1902.	
Plain staple goods (shirtings, sheetings, drills, T cloths, etc.), pieces.....	13,794,274	18,695,975	<i>Per cent.</i> 35.5
Fancy goods (dyed, printed, figured, etc.).....pieces.....	3,754,189	5,252,541	40
Yarn.....piculs.....	1,303,599	2,447,971	87.8

And in addition there were imported in 1902 some 500,000 pieces of goods which were not classified in the 1892 returns at all. Taking this class as a whole, its valuation by the customs in 1892 was 52,707,432 taels, or in sterling, at the 4s. 4½d. exchange of that year, £11,474,847; in 1902 the valuation was 127,545,309 taels, or, at exchange 2s. 7½d., £16,580,890, an increase in China's spending power in taels of over 140 per cent, and an increase of 44½ per cent in the sterling paid to home manufacturers.

## (3) WOOLEN GOODS.

	Imports.		De-crease.
	1892.	1902.	
All classes.....pieces.....	498,700	306,957	<i>Per cent.</i> 38.4

Against this decrease, however, there appears in the 1902 returns an importation of some 77,000 pieces of other goods which were unclassified in 1892. The customs value of woollen importations in 1892 was 4,794,230 taels, or at exchange 4s. 4½d., £1,043,744; in 1902 it was 3,921,173 taels, or at exchange 2s. 7½d., £509,754; a decrease in taels of 18.2 per cent, and in sterling of something over 51 per cent. The decline in the woollen trade is accounted for by the replacement of woollen fabrics by cotton imitations.

## (4) METALS.

	Imports.		Increase.	Decrease.
	1892.	1902.		
Iron (all kinds).....piculs.....	1,359,343	1,162,410	<i>Per cent.</i>	<i>Per cent.</i>
Steel (all kinds).....do.....	53,443	197,113	269.0	14.5
Tin (slabs).....do.....	66,966	52,636		21.4
Tinned plates.....do.....	17,970	65,123	262.5	
Lead (all kinds).....do.....	223,589	135,744		39.3
Copper (all kinds).....do.....	43,114	33,566		22.1
Yellow metal (all kinds).....do.....	26,336	25,782		2.1

The importation of other metals, such as spelter (contraband), quick-silver, white metal, brass wire, etc., is inconsiderable, and need not be taken into account. The customs valuation in 1892 of the whole

metal class was 7,130,866 taels, or at exchange 4s. 4½d., £1,552,449. In 1902 it was 10,574,928 taels, or at exchange 2s. 7½d., £1,374,741, an increase in taels of 48.3 per cent and a decrease in sterling of 11.4 per cent.

## (5) SUNDRIES.

The analysis of this class of imports is a more complicated matter; we divide it into the following subclasses:

(a) *Articles which appear in the customs return of 1892 and 1902 in unit of quantity.*

	Imports.		Increase.
	1892.	1902.	
			<i>Per cent.</i>
Sugar (all kinds).....piculs	531,625	4,473,222	741.0
Coal.....tons	398,320	1,173,621	195.0
Kerosene oil.....gallons	40,533,331	89,933,907	122.0
Matches.....gross	5,227,598	15,206,140	190.0
Cotton.....piculs	106,635	248,566	133.0
Fish and sea products.....do	865,983	904,976	4.5
Umbrellas.....pieces	667,663	1,213,290	81.7
Needles.....mille	3,043,539	4,432,679	45.6

The customs value of the above articles in 1892 was given as 17,595,797 taels, or at exchange 4s. 4½d., £3,830,751. In 1902 it was 54,351,400 taels, or at exchange 2s. 7½d., £7,091,682, an increase in taels of over 200 per cent and in the sterling of about 85 per cent. It should, however, be mentioned in connection with the enormous increase in the importation of sugar that a large part of the sugar is really of Chinese origin, which is sent to Hongkong and thence reexported into China. In this way the sugar becomes nominally a foreign import, and as such receives the benefit of the transit pass.

(b) *Articles which appear in the customs returns of 1892 and 1902 in unit of value.*

	Imports.	
	1892.	1902.
	<i>Taels.</i>	<i>Taels.</i>
Paints, dyes, colors, etc .....	1,436,758	3,850,540
Flour .....	670,904	3,844,319
Machinery .....	593,449	794,363
Wines, beers, etc .....	364,977	1,500,450
Soap .....	291,806	1,061,161
Timber and wood .....	2,343,961	4,750,613
Total .....	5,701,855	15,801,446
Or in sterling at the exchanges of the years .....	£1,241,341	£2,054,188

Showing an increase in taels of 177 per cent, and in sterling of something over 65 per cent.

N. B.—Sundry imports of minor importance, such as betel nut, cloves and spices, ginseng, jadestone, window glass, flints, etc., the importation of which in quantity or value has not varied materially in the eleven years, are omitted from the foregoing two tables. Rice is also purposely omitted, as the annual importation varies so greatly, according to the conditions of the home crop.

(c) *Articles which were unenumerated in the customs returns for 1892, but which appear in the returns for 1902, in unit of value.*

	Imports, 1902.
Articles of personal and household use, such as butter and cheese, candles, china-ware, cigars, cigarettes, foreign clothing, household stores, etc.....	<i>Taels.</i> 8,085,889
Leather.....	525,811
Bags and mats.....	1,322,773
Silk goods.....	764,909
Buttons.....	291,670
Llama braid.....	368,944
Match-making material.....	293,934
Cement, charcoal, and fans.....	485,442
Total.....	12,139,372

At exchange, 2s. 7½d., equal to £1,578,118.

And lastly, we have:

(d) *Sundries unenumerated in both years.*

Year.	Value.	Exchange.	Equivalent.
	<i>Taels.</i>	<i>s. d.</i>	
1892.....	9,475,296	4 4½	£2,062,851
1902.....	24,350,825	2 7½	3,165,607
Increase, per cent.....	157		53.4

From these tables it will be seen that, except in the three articles of opium, woolens, and metals, the increase in the import trade has, despite a 40 per cent fall in silver, been very material. What would have been the course of the trade had there not been this fall in exchange it is of course impossible to say, but at least the fact of a material increase in import trade expansion, and this in many new directions, must be admitted. Taking the customs valuations of the foreign import trade for what they are worth, they supply the following comparison:

Year.	Value.	Exchange.	Equivalent.
	<i>Taels.</i>	<i>s. d.</i>	
1892.....	135,101,198	4 4½	£29,413,656
1902.....	315,363,905	2 7½	40,998,307
Increase, per cent.....	133.4		39.4

It will be noted that, curiously enough, the percentage of increase in the sterling value of the trade is just about the same as the percentage of decrease in the gold value of silver.

\*                      \*                      \*                      \*                      \*                      \*

Turning next to China's foreign exports, it has been thought desirable to make a more extended examination of this trade than has been applied to her imports. The wants of the Chinese in the matter of imports, and the expansion and paying power which China has evidenced in connection with these wants are, we think, sufficiently evidenced by the eleven year's comparison of the trade which has been given above. China's exports to foreign countries seem to require

somewhat different treatment, in that these exports, being mostly of raw products, come into competition with the world's supply and are affected by the varying conditions governing the possibilities of such supply; for instance, an abundant silk crop in any given year in Italy, happening in conjunction with, in the same year, a bad silk crop in China, must necessarily affect the possibilities of the latter's export. Therefore any comparison of figures should be based on an average of years, and for the purpose of such average we have chosen the two decennial periods of 1882 to 1891, and 1892 to 1901, at the same time placing alongside the averages of these two decennial periods the figures for 1902, which have only lately been published.

The endeavor still will be, as far as possible, to confine figures to the quantitative basis, though in many cases we must perforce fall back upon the less reliable figures of customs valuations; and first, to quote these customs valuations for what they are worth, we would submit the following comparison between the periods mentioned:

Customs valuations of exports averaged on the following decennial periods:

Period.	Value.	Exchange.	Equivalent.
	<i>Taels.</i>	<i>s. d.</i>	
1882 to 1891 .....	81,019,593	4 9	£19,242,153
1892 to 1901 .....	146,867,184	3 2 $\frac{1}{2}$	23,376,360
1902 .....	214,181,584	2 7 $\frac{1}{2}$	27,843,647

That is to say that in the two decennial periods the average annual value of China's exports, as measured in gold, increased by some 21 per cent, the fall in exchange in the two periods being about 33 per cent; and in 1902 they increased, as compared with the average of the previous decade, by about 15 per cent, as against a further fall in exchange of 18 per cent. It would appear, therefore, that the declining gold value of silver, while it may have to some extent stimulated China's export trade, has not done so in anything like the ratio of such decline. Some other explanation of the reasons of the comparatively slow expansion of China's export trade will be attempted later on.

So much for valuations, which, as I have said, are not, in our opinion, to be accepted as fully reliable. Our next endeavor is to take up the subject of the export trade on a quantitative basis.

In considering the export returns a point which immediately strikes one is the very great increase that has occurred in the export of Chinese produce to countries lying within what may be termed the "China basin"—i. e., Japan, Korea, Straits Settlements, Philippines, and the so-called "foreign" Hongkong. A very important proportion of these exports is simply for the use of Chinese emigrants in these adjacent countries, while Japan, as is only natural, is drawing upon China's productive resources in a rapidly increasing extent. The articles in this category comprise bamboos, bean cake, cattle, chinaware, Chinese clothing, cotton, fans, firecrackers, fish and fishery products, fruits, fungus, glassware, grass cloth, mats and matting, medicines, nan-keens, oils, paper, preserves, provisions, samshu, silk piece goods, sugar, and vermicelli.

Now, these articles, which appear in the customs return of 1902 as almost one-third of China's total foreign exports, only find place in the returns for the decade of 1882 to 1891 (so far as they are represented at all) to the extent of about one-fifth. This question is not without

its importance as illustrating the natural growth of China's export trade in her immediate surroundings—a trade which ought to possess, and no doubt does possess, possibilities of almost unlimited expansion.

Let us now turn to the question of China's exports to the exclusively gold-using countries of Europe and America—the trade which has probably been chiefly in our minds as the export trade of China. In the following table are left out of account such exports as camphor, china root, curios, galangal, gold and silver ware, leather, lily flowers, and sunflowers, for the double reason, first, that it is difficult to get any accurate information as to what is the destination of these exports (they are probably largely for Asiatic use); and, secondly, that they do not represent any important proportion of the trade (in 1902 less than 1 per cent). The lists of exports to Europe and America, then, is reduced to the following limited number of articles, which we give as follows:

Articles.	Average annual quantity exported.		Increase.	Decrease.	Export in 1902.
	1882-1891.	1892-1901.			
	<i>Piculs.</i>	<i>Piculs.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Piculs.</i>
Cassia lignea.....	54,055	69,775	29.0		71,314
Bristles.....	(a)	24,872			37,547
Feathers.....	91,172	59,900		34.3	71,993
Hemp.....	36,456	115,137	216.0		222,478
Hides.....	72,162	169,528	135.0		295,205
Musk.....	23	22		4.0	19
Nutgalls.....	29,919	39,649	32.5		48,488
Rhubarb.....	5,481	7,630	39.2		9,292
Sesamum seed.....	(a)	152,929			882,302
Silk:					
Raw.....	76,277	109,368	45.8		119,698
Cocoons.....	7,015	12,713			13,436
Waste.....	46,222	66,894			84,397
Star aniseed.....	6,817	8,356	22.6		10,384
Straw braid.....	82,999	95,275	14.8		100,678
Tallow.....	(a)	46,575			174,270
Tea.....	1,997,961	1,619,741		18.9	1,519,211
Tobacco.....	46,714	151,334	224.0		169,339
Wool.....	65,708	181,636	176.0		225,937

a No return.

And, in addition, we have the following two export articles of importance which are returned by the customs in measure of value:

Annual average value.

	1882-1891.	1892-1901.	1902.
	<i>Taels.</i>	<i>Taels.</i>	<i>Taels.</i>
Hair.....	241,091	355,068	423,949
Skins.....	518,489	2,587,044	5,268,372
Total.....	759,580	2,942,112	5,692,321

1882-1891: At exchange 4s. 9d.=£180,400. 1892-1901: At exchange 3s. 2½d.=£468,286. 1902: At exchange 2s. 7½d.=£740,000.

Now, taking the articles of which we have returns for both decades in unit of quantity, we find the increase in actual weight of these exports to be hardly more than 3½ per cent, and a comparison of the figures for 1902 with those of the 1882-1891 decade shows an increase, article for article, of little more than 13 per cent, though it is to be admitted that the three articles of bristles, sesamum seed, and tallow,

which had no place in the returns of the 1882-1891 decade, show evidence of new export expansion. Again, looking at these exports in the light of their returned values, we arrive at the following:

Period.	Average annual value.	Exchange.	Equivalent.
	<i>Taels.</i>	<i>s. d.</i>	
1882-1891	59,184,562	4 9	£14,051,333
1892-1901	87,883,941	3 2½	13,988,199
1902	124,957,518	2 7½	16,661,144

showing that there was no sterling expansion in the returned value of the trade in the two decades; for 1902 the value certainly does show some increase, but the figures of a single year are, as has been stated, of little use for purposes of comparison.

To sum up, then, the general conclusions which are arrived at are as follows:

That while the import trade has in the eleven years—1892 to 1902—increased in sterling value some 40 per cent, the trade in exports has in twenty years hardly increased at all so far as Europe and America are concerned, but has made some fair increase with countries adjacent to China—countries which, with the exception of Japan, have adhered throughout the period to a silver basis, and even in Japan the adoption of a gold standard dates from only some six years ago. Clearly, then, it can not be claimed that the decline in the gold value of silver has done anything to stimulate the growth of China's exports to gold-using countries, while, on the other hand, it has not checked an expansion of imports from these gold countries.

It has to be admitted, however, that there may be—that, in fact, there are—factors outside the exchange question which have prevented, and continue to prevent, export expansion. Some of these are:

(1) The indifference shown by the Chinese Government to any encouragement of the export trade.

(2) The absence of facilities for the transportation of produce to the ports of shipment.

(3) The fraudulent practices of the Chinese in connection with the preparation of produce for export.

With regard to the first point, a most pertinent illustration of China's indifference is the tea trade. Some thirty years ago the Chinese Government was solemnly warned that unless serious measures were taken to improve the cultivation and preparation of China teas, and unless considerable relief was granted in the taxation upon export, the trade was bound to be ruined by Indian and Ceylon competition. Not the slightest attention was paid to these warnings, and although the value of China teas has been steadily declining, the specific export tariff has (until 1902, when a half-hearted reduction was made) remained the same, while the internal exactions have considerably increased; nor has there been the slightest attempt made to improve either cultivation or preparation. The result has been a decrease in the export, as shown in the preceding table, of 18.7 per cent between the decade of 1882-1891 and 1892-1901, while the export for 1902 shows a further fall of about 6½ per cent more. And as regards the general question of exports, not only would it appear that the Chinese Government is wholly indifferent to the patent economic necessity of fostering export expansion, but that it merely looks upon that trade, as upon all trade, as a milch cow, to be squeezed to the uttermost for its own purposes of rapacity and immediate necessity.

On the second point it is not necessary to dwell. It is certainly something gained that China has avowedly recognized the necessity of railway development, and she has also agreed in a progressive undertaking as regards her inland water navigation communications. It must, however, be some time before trade advantage is to be found either through railway construction or through the promise of an improved system of her inland water regulations.

As to the third point we can not do better than quote from the report prepared in 1901 by the subcommittee appointed by the Shanghai General Chamber of Commerce to look into the question of "sundry exports." The report says:

"Among the many irregularities apparent in the packing of various exports, we would point out the following:

"*Bristles*.—Putting short hairs or 'riflings' in the middle of the bundles, a fraud very difficult to detect; also packing the bundles with a thick paper, so as to get a squeeze in weight.

"*Horse hair*.—The same trouble as in bristles, of putting short hair in the middle of the bundles; also adulterating with 'dead hair.'

"*Gall nuts*.—Usually sent down with about 10 per cent refuse and small pieces of wood, entailing trouble and expense in sorting. The unwary often get caught.

"*Tallow*.—Adulterating with stones and pieces of wood put into the slats during the melting process, and water added to increase weight.

"*China grass*.—Introduction of short lengths.

"*Fish maws*.—Kept damp, so as to squeeze in weight.

"*Musk*.—Opening the pods and removing the musk, afterwards resewing the pods; damping for weight; adulterating with ammonia.

"*Rhubarb*.—Mixing soft, wormy, spongy, perished stuff with sound cargo, the inferior stuff being put in the center of the bales or cases.

"*Feathers*.—There is no excuse for the filthy way in which these are brought to market, except the eagerness of buyers to secure cargo. Until recently ordinary parcels used to lose about 30 per cent; now 50 or even 60 per cent is not uncommon. We think foreign buyers are responsible for a great deal of the adulteration, loading, wetting, and inferior quality of cargo. When there is any demand for an article buyers compete so eagerly for it that the natives are able to impose all sorts of conditions—such as examination at the wharf, payment before delivery, and so on. This goes on until the article deteriorates to such an extent that buyers make heavy losses; then for a time it is entirely neglected, until natives, finding it impossible to sell their common stuff, produce a better quality, and again the same process is repeated."

And the report concludes with the suggestion that—

"Assorting and repacking of all goods for export should be permitted at the original port of shipment, as well as at the port of transshipment. This reassorting of goods is rendered necessary in consequence of the vagaries of the Chinese as stated in the foregoing, and the arbitrary exactions of the customs in requiring special permit for so doing is severely complained of as being unnecessary and cumbersome to the export trade."

Until foreign exporters are permitted to deal with their exports at the "point of origin" there is little hope of the irregularities complained of being removed; something may be hoped for in this direction under the working of the inland navigation rules.

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It has been suggested by more than one competent observer that

though gold has theoretically no place in the domestic trade of China, yet that the fact of the constant rise in the currency values of China's products has some connection with the question of gold appreciation. That this is so does not, in the opinion of this committee, admit of doubt. The fact is too much lost sight of that the actual basis upon which the internal trade of China is conducted is not silver but copper; it is the purchasing, or selling, power of the "copper cash" that the Chinese buyer, the Chinese seller, and the Chinese laborer looks to; it is in copper cash that they measure their power of purchase, in copper cash that they measure the value of their produce, and it is in copper cash that the laborer measures the value of his wages. It may be suggested that silver is in very large measure merely a convenient medium of overcoming the expenses and difficulties which would be entailed in the movement of the enormous masses of copper cash which the trade would, without some such medium, require. Let us look at this mixed question from the copper-cash point of view.

*Value of the tael in 1882 and 1902.*

Period.		Gold value.	Copper-cash value.
1882	-----	s. d.	
1902	-----	5 2	1,690
	-----	2 7½	1,240
Depreciation	-----per cent.	49.7	26.6

A considerable depreciation in copper cash, no doubt, but not much more than half the depreciation of silver in terms of gold. It therefore comes to this that in terms of cash what a Chinese could afford to sell for the one silver tael in 1882 he would in 1902 (assuming an equality of conditions in both years) require 1.36 taels; and, on the other hand, for what he bought of foreign imports for 1 tael in 1882 he would be in the same position by paying 1.36 taels in 1902. The point is put forward as suggesting that the Chinese bimetallic question has more reference to the relations of gold to copper than the relations of gold to silver.

In all this confusion of China's currency (or rather absence of currency) it must be agreed on all sides that the first thing to be arrived at is the establishment in China of a national coinage, a coinage which shall by law be legal tender for the payment of all taxes, duties, and debts. The first bimetallic problem that China has to face is the relation between silver and her copper coinage—a problem which surely, if China possesses any power of government, should not be difficult of solution. This matter of a national coinage was put in the forefront of the Shanghai treaty, by Article II of which "China agrees to take the necessary steps to provide for a uniform national coinage, which shall be legal tender in payment of all duties, taxes, and other obligations throughout the Empire by British as well as Chinese subjects."

Until this is done, it is, in our opinion, idle to talk about a gold currency for China. With a national silver coinage which shall settle her bimetallic trouble of silver and copper, China will be far advanced toward dealing with the further question of some fixed relations between her coinage and that of gold countries. Until she has taken this preliminary step, and has carried out her obligations under the treaty, there is nothing to be hoped for, and therefore this committee completely indorses the resolution which was unanimously

passed at the recent annual general meeting of the Shanghai General Chamber of Commerce to the effect that—

“Having in view the fact that silver is subject to violent fluctuations and that China’s financial obligations, national and commercial, are now mainly and in future will probably be entirely with gold-using countries, this chamber is of opinion that the Treaty Powers should urge the Chinese Government to take the necessary steps without delay to provide for a uniform national coinage, as a first step toward establishing the currency of this country on a gold basis at as early a date as practicable.”

The establishment of a national coinage should be accompanied by the establishment of a national bank controlled by a Government board aided by foreign advisers, which bank shall have power to control all the mints, to issue notes against stipulated reserves, and to demonetize existing forms of currency within a specified time. The board should also have power to adopt measures necessary to fix and maintain a par of exchange between the imperial silver unit, subsidiary silver coinage, and copper cash.

To conclude, it is the opinion of this committee that as the expansion of China’s exports is of first consequence in assisting a fixity of exchange, the Powers interested should lose no opportunity of pressing upon China the urgent necessity of reducing taxation upon exports to the lowest possible point and of improving her internal communications, whether by land or water, rendering all encouragement and assistance to schemes having such object in view.

I am, dear sir, yours faithfully,

C. J. DUDGEON, *Chairman.*

JOSEPH WELCH, Esq.,  
*Secretary China Association, London.*

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HOTEL METROPOLE, *London, July 11, 1903.*

DEAR MR. WELCH: Through your courtesy I have recently received a copy of Sir Charles Dudgeon’s report of May 11, 1903, which I have studied with great interest. It is a remarkable analysis of China trade statistics for some years back, worked out, if I am not mistaken, by an entirely original method.

I myself have recently had occasion to compile figures from the Chinese custom statistics with a view of ascertaining the balance of trade to and from the treaty ports, which is nominally adverse to China. For this purpose I naturally took a different series of figures from those used in Sir Charles Dudgeon’s analysis, viz, annual imports, value at moment of landing, annual exports, value at moment of shipment, and net imports or exports of treasure, gold and silver.

I may mention that, taking the net balance of trade, favorable or adverse, for each year in haikwan taels, and converting the amount into sterling at the officially quoted rates, I make the total sterling balance, nominally adverse to China, for the thirteen years 1890–1902 to be £20,682,000, or an annual average of £1,591,000. This does not appear to be more than may be reasonably offset by those numerous movements of merchandise and treasure, which, as the statistical secretaries of the maritime customs are constantly reminding us, are beyond the control of their department.

After reading the Shanghai report of May 11, it occurred to me to group some of my own figures in a new way, and I venture to submit to

you two tables with my results. These are interesting because, from an entirely different standpoint, they confirm Sir Charles Dudgeons' conclusions in a general way, and also because they bring out important facts which are hardly apparent from his figures as published.

The facts are these. Since 1892 China's takings of foreign imports and the values of her foreign exports, as measured in silver, have expanded steadily and continuously. Even measured in gold, the values of imports, and in a much smaller degree the values of exports, have been annually expanding since 1895.

A reference to my tables will show how I reach these results. Alongside of the details of actual imports and exports I give the figures of triennial averages, obtained by averaging the figures for each year with those of the preceding and the following years. This system of averages tends to distribute the statistical effect of such sudden leaps in both imports and exports as are found between 1901 and 1902, and to bring annual figures into closer approximation with the actual operations of commerce, which always overlap calendar periods.

The index numbers for both silver and gold values are percentages of the respective averages for the year 1892, which are taken as 100.

I shall be glad if these figures prove of any interest to my old friends of the China Association, and I remain, yours sincerely,

F. B. FORBES.

JOSEPH WELCH, Esq.,

*Honorable Secretary, China Association.*

*Exports from China—Value at moment of shipment.*

Years.	Sterling value of haikwan tael.	Actual exports.		Triennial averages.			
		Haikwan taels.	Value in pounds sterling.	Haikwan taels.	Index numbers.	Value in pounds sterling.	Index numbers.
	<i>s.</i> <i>d.</i>						
1891	4    11	115,553,640	28,406,936				
1892	4    4½	117,218,438	25,519,431	121,574,545	100	26,634,777	100
1893	3    11½	131,951,558	25,977,963	131,286,679	108	24,877,576	93
1894	3    2½	144,690,042	23,135,335	145,779,451	120	25,131,304	94
1895	3    3½	160,696,753	26,280,615	150,771,962	124	24,634,711	92
1896	3    4	146,929,091	24,488,182	163,131,946	135	25,948,304	97
1897	2    11¾	181,769,995	27,076,114	168,621,490	139	25,708,031	96
1898	2    10½	177,165,384	25,559,798	192,181,794	158	28,463,584	107
1899	3    ½	217,610,004	32,754,839	190,485,203	157	28,578,960	107
1900	3    1½	176,680,221	27,422,243	194,081,706	159	29,342,563	110
1901	2    11¾	187,954,894	27,850,608	200,247,464	165	28,655,599	108
1902	2    7½	236,107,278	30,693,946				

*Imports into China—Value at moment of landing.*

Year.	Sterling value of haikwan tael.	Actual imports.		Triennial averages.			
		Haikwan taels.	Value in pounds sterling.	Haikwan taels.	Index No.	Value in pounds sterling.	Index No.
	s.	d.					
1891	4	11	115,023,051	28,276,500			
1892	4	4½	116,786,112	25,425,310	120,350,322	100	26,382,097
1893	3	11½	129,241,804	25,444,480	128,532,372	107	24,395,441
1894	3	2½	139,569,201	22,316,534	139,685,165	116	24,110,749
1895	3	3½	150,244,490	24,571,234	155,814,766	129	25,497,623
1896	3	4	177,630,606	29,605,101	168,596,753	140	26,892,760
1897	2	11½	177,915,163	26,501,946	180,010,766	149	27,574,357
1898	2	10½	184,486,528	26,616,025	198,785,181	165	29,444,300
1899	3	0½	233,953,853	35,214,929	201,436,977	167	30,226,537
1900	3	1½	185,870,551	28,848,658	219,232,001	182	33,103,569
1901	2	11½	237,871,600	35,247,120	241,550,242	201	34,404,631
1902	2	7½	300,908,575	39,118,115			

## XIII.—THE CURRENCY QUESTION IN CHINA.

[London Times, Thursday, June 4, 1903.]

For some time past, in fact, since the effect of the Boxer indemnity has been realized, the question of introducing the gold standard into China has received the serious attention of native and foreign merchants, and has become a subject of discussion even amongst native officials. If its solution were dependent on the activity or inactivity of the latter, the matter might at once be classed with the open door, the integrity of the Empire, educational reform, and all the other pleasant fictions which the mandarinatè is ever ready to discuss with sympathetic Europeans, so long as nothing is said or done to interfere with its time-honored privileges. There are indications, however, from more than one quarter that this question must before long be taken out of the hands of native officialism. There are too many interests involved in the promotion of China's commercial and financial prosperity to allow the present condition of affairs to be protracted indefinitely.

At a meeting of the Shanghai Chamber of Commerce, held on the 18th ultimo, the following resolution was unanimously adopted:

"Having in view the fact that silver is subject to violent fluctuations and that China's financial obligations, national and commercial, are now mainly, and in future will probably be entirely, with gold-using countries, this chamber is of opinion that the treaty Powers should urge the Chinese Government to take the necessary steps without delay to provide for a uniform national coinage as a first step toward establishing the currency of this country on a gold basis at as early a date as practicable."

The reform to which this resolution refers is one for which the necessity has for long been evident; the Chinese Government has practically admitted the fact by accepting in principle Article II of Sir James Mackay's treaty, and the United States and Japanese treaties now under discussion contain similar clauses. In the press, native and foreign, opinion is unanimous that the existing chaotic condition of Chinese currency and finance is in itself sufficient to check progress and to handicap trade; on all sides the necessity for immediate reform is admitted, and the weight of public opinion is such that even the vis inertie of the central Government must eventually feel its effect. Already there are signs of potential mental activity on the subject in the slumbrous precincts of the board of revenue and the Wai-wu-pu; several of the aged classical scholars who control the country's destinies have recently given the matter attention, and there is a hopeful impression abroad that somewhere and somehow an effort is really going to be made to do something. (The position, in fact, is somewhat similar to that of war office reform in England at the close of the Boer war.)

The few Chinese officials who have made an intelligent study of the question have realized that this reform, unlike many others, is not one which can begin and end with an imperial edict; furthermore, that if anything is to be done it must be done upon strict business principles; finally, that under those conditions, the proposed changes, though generally beneficial, hold out little hope of immediate profit for individuals. Looked at from the national point of view and in the light of patriotic theory, the scheme of currency reform is unassailable—without it, the country must continue to be confronted by the prospect of

instability and ever increasing liabilities; yet from the individual official's standpoint, it is not entirely free from objections. The present system offers the advantages of independent mints—and profits on coinage—in each viceroyalty; of numerous and ever fluctuating units of currency, creating unlimited opportunities of “squeeze,” together with elasticity and intricacy of accounts very dear to the Chinese mind. Under a uniform coinage system much of the interest of life would be lost to the mandarin, while the banker, comprador, and “shroff” will naturally resist its introduction to the utmost.

For these reasons, and despite the unmistakable trend of public opinion to which I have alluded, it is improbable that the Chinese Government will move with anything like undignified haste in the direction of financial and currency reform. There are many conservative ideas and vested interests to be overcome before any practical results can be attained. For instance, there exists a very general belief among native officials of the class which abetted the Boxer rising that a falling and fluctuating exchange, being evidently bad for trade, is a dispensation of Providence, since trade is the chief end and object of the outer barbarians' existence in China. Kill his trade and the foreigner will go. It is a simple belief, which from its very simplicity appeals strongly to minds unfitted to grapple with complex questions; they perceive that the situation created by the fall of silver is perturbing the serenity of European traders, and their attitude in the matter is therefore one of contented expectancy. Again, the provincial authorities, especially those who control their independent mints, may reasonably be expected to oppose any reform which deprives them of profit from this source.

Finally, there are to be reckoned with the native bankers, especially the great Shansi guilds, who maintain and control the present complicated machinery of finance throughout the Empire. Discussing recently the currency-reform article in Sir James Mackay's treaty, an intelligent native official observed that edicts might be published and the board of revenue might issue instructions to enforce them, but he doubted whether all the authority of Peking could overcome the opposition of the Shansi bankers, in whose hands the country's finances virtually rest. The recent complete dislocation of trade in Tientsin, resulting from the Viceroy Yuan's well-meant attempt to amend the methods of the native banks, has demonstrated the power of resistance latent in their widely extended organization and the difficulties which lie in the path of the currency reformer.

Nevertheless, the mass is undoubtedly moving. A first cause is to be found in the increased burden which the country's gold debt has imposed on the Central Government. Between the date of the protocol (September, 1901) and the end of 1902 China's liabilities were augmented by over 20 per cent, due simply to the fall in the value of the metal in which the country's revenues are collected. The abstract injustice of the situation requires no comment; the people of China have done nothing to deserve this further addition to their punishment, nor could they by any means have prevented it. Any other government but the Chinese would long since have recognized the present gravity and future dangers of such a situation and would have taken immediate steps to remedy it. Even the Wai-wu-pu feels that something must be done, and accordingly its intelligence and energies are directed in the first instance toward repudiating the protocol. A further step, in conformity with the traditions of Celestial procedure, has therefore been taken in directing that the special

mission to the Osaka Exhibition shall study and report on the question of introducing the gold standard into China on lines similar to those successfully adopted by the Japanese. Anyone acquainted with Prince Tsai Chen, Na t'ung, and the other native personages who represent China at this exhibition will appreciate the value of the forthcoming report.

It will probably not make its appearance till next year, a fact which no doubt appeals to the Wai-wu-pu; the interval represents so much time gained during which the matter may rest in that condition of indefinite theory which commends itself to the Chinese official mind, and in the meanwhile there is always the possibility that "something may turn up." Meanwhile an edict of April 22 directs Prince Ching and Chu Hungchi, in conjunction with the board of revenue, to devise measures for the establishment of a central mint at the capital whereat "a sufficient quantity of coins shall be struck for distribution throughout the Empire, which may be used by the people in payment of taxes, likin, etc." Lest matters should move too rapidly, it is further decreed that "when the prince, minister, and board have drawn up a report they shall await the Imperial instructions in this matter."

As indicating the value of the advice which the Government may expect from Chu Hungchi, president of the Wai-wu-pu, it is useful to bear in mind that this is the official who, upon the conclusion of Sir James Mackay's negotiations, drafted the Imperial edict summarily abolishing likin—a decree which was subsequently amended. It will be observed that the present edict apparently anticipates that likin will continue undisturbed.

To the foreign merchant in China the currency question is one of immediate and serious concern. Not only with the steady fall of silver have his income, investments, and savings greatly depreciated in value, but the sudden and violent fluctuations to which exchange is subject invest his trade generally with a speculative element, which perforce curtails operations. To the ordinary chances and changes of the market is added the ever-present risk of exchange, converting business operations into gambling transactions, wherein neither expert opinion can guide nor caution protect the trader. Within the past week the value of the tael at Shanghai has risen from 2s. 2 $\frac{3}{4}$ d. to 2s. 4 $\frac{1}{2}$ d.—about 8 per cent—and an equally rapid fall in the near future is not improbable. Legitimate trade under such conditions becomes impossible.

Under existing circumstances and with the burden of heavy foreign loans to be faced, China, to reach a sound financial state, should be able to show a considerable balance of trade in her favor, for evidently, unless exports largely exceed imports, she must in course of time meet her liabilities by exporting bullion. It was generally expected in 1902 that, following upon the heavy fall in silver, China's exports would be greatly stimulated; also that her imports must be curtailed.

So far neither of these predictions has been justified, nor has silver been shipped to any considerable extent; but so many are the unseen factors which affect Chinese trade and finance, so unreliable is the official information on many points immediately affecting the whole question, that it is unsafe even to hazard an opinion as to the real meaning of recent statistics. Two things are certain—namely, that exports show no sign of expansion, and that the constant fear of a fall in exchange affects the balance of trade adversely in various ways.

In the first place, it causes the foreign exchange banks to postpone and curtail shipments of silver to China and induces them to reduce their cash balances as much as possible; it discourages the investment of sterling capital in the country and leads foreigners in China to remit their savings for investment in Europe. These factors have an immediate effect on the balance of trade, and the withdrawal of capital in particular produces serious results. The country's finances are now passing through a necessary period of adjustment which inevitably hampers trade, and the situation is one which no half measures can alleviate; it is liable to reoccur indefinitely so long as unstable exchange conditions continue. The more enlightened class of native officials and merchants perceive that foreign capital and foreign methods are necessary if the country is to be saved from insolvency, bankruptcy, and chaos, and they realize also that if salvation of this kind is to be forthcoming the introduction of a national uniform currency is a matter of urgent necessity as a step preliminary to the establishment of the gold standard in China. It is recognized that since the United States have abandoned the free coinage of silver, and as one country after another has discarded the white metal for gold, China's difficulties have become intensified. To quote a statement made by Sir David Barbour in his Indian budget speech in 1893, permanently applicable in China to-day, "The financial position for the coming year is at the mercy of exchange and of those who have it in their power to affect in any way the price of silver." China's financial position is none the better for the fact that she knows nothing of budgets or financial members, but in other respects it bears every feature of resemblance to that which led the government of India to close the mints and to reestablish the rupee on a fixed sterling basis in 1893.

Many views on the subject have during the past year been expressed from platforms and in the press; much advice has been tendered to the seven sleepers of the Peking state department, from which may be deduced a very general consensus of opinion that China in reforming her finances should follow the example of India rather than that of Japan. The resources and general condition of the Empire render inadvisable any immediate attempt to establish, with borrowed capital, a gold coinage and a gold reserve, whereas the establishment of a gold standard of value without a gold currency appears to be a matter of practical politics, providing a way out of the present impasse without radical disturbance of existing conditions.

A very able essay on the subject has recently been published in the columns of a Tientsin journal and reissued as a pamphlet. Its author makes definite and practical suggestions which have attracted favorable notice. He proposes the gradual introduction, within a period of three years, of the desired reforms; he recognizes the fact that the position of China as compared to that of India in 1893, while similar in many respects, is affected by the lack of energy and strength in the central Government. He considers that as a first step the Government must recognize that stability of exchange is essential to the country's financial prosperity; next, that existing vested interests should be conciliated. The native banks, in particular, should be reassured by arrangements which would not deprive them of their rights and monopolies. Opposition from the foreign exchange banks is naturally to be expected, since their large profits are mainly derived from the present methods of finance—methods in many instances diametrically opposed to the Chinese Government's interests.

Briefly stated, the scheme proposed is as follows:

*First year.*—Establishment of a national bank, with head office at Shanghai; this bank to mint exclusively a new uniform “tael” coinage and to issue notes against reserve of the same; to handle the Government’s balances, etc. Its directors, advised by foreign experts, to be directly responsible to the board of revenue. Its inspecting officers to be appointed by the inspector-general of customs to examine its books and cash reserves. For a period of two years the present “sycee” currency to be exchangeable for new tael coinage or notes on demand; its circulation thereafter to be illegal. The new coinage to be recognized as legal tender by imperial edict.

*Second year.*—Prohibition of minting “sycee” currency and of importation of dollars; the latter to be exchangeable for “tael” coinage during a period of six months; their circulation thereafter illegal.

*Third year.*—Prohibition of import of silver. The rate of exchange of “tael” coinage to be fixed at, say, 8 taels equal to £1. The profits on minting to be held as a gold reserve by the bank and not to form part of the Government’s ordinary revenues. A “China office” to be opened in London and New York for the sale of drafts on China.

It appears probable that either the Chinese Government will take early action of its own initiative and in its own interest or that the Powers interested will confer in regard to China’s finances and currency. Until quite recently the native official has shown no intelligent interest in the matter; but of late, under the stern hand of adversity, his education has advanced rapidly. The Government now fully appreciates and desires the payment of customs duties on a gold basis, although not so ready to recognize the necessity of any effort to obtain it honestly. It has also realized that in India to-day coins of an intrinsic value of 7½d. are circulating freely and maintaining a stable exchange value of 1s. 4d., and the idea is gaining ground that what the government of India has done China can attempt to do.

#### XIV.—PUTTING CHINA ON THE GOLD STANDARD.

[By CHARLES A. CONANT, treasurer of the Morton Trust Company, New York, and member of the Commission on International Exchange of the United States of America, in the North American Review, November, 1903.]

Western civilization has seemed, during the last few years, to be sighing with more restlessness than Alexander for new worlds to conquer for its inventive genius and its financial and economic organization. Such conquests, happily, where they do not raise the question of territorial acquisition, benefit alike those who make them and the countries where they are made. Railway construction within the past decade has traversed the steppes of Siberia, bringing the West within two weeks’ journey of the extreme Orient; has connected Europe with central Asia and the Caspian Sea, and has carried the shriek of the locomotive through the cities where Paul preached to the capitals of the ancient civilizations of Nebuchadnezzar and Xerxes. A railway is being completed “from the Cape to Cairo,” which is sending offshoots through the heart of Africa and spreading the arts of civilization through a country which, a generation ago, could hardly be traversed by the most hardy explorers under armed escort.

Familiar as are the arguments for the benefits derived from railways, their real influence as agents alike of civilization and centralized power is often overlooked. They have made possible political unions which would otherwise be extremely difficult. Many were found who

predicted that the American Union would fall to pieces of its own weight when it extended to Oregon, and the maintenance of Russian power in Asia would hardly be possible without her network of ways of steel. The recent history of Mexico is another case in point. Insurrections against the central authority, which once spread for weeks before they were even known at the capital, can now be suppressed by the use of the telegraph and the railway almost before they have taken form. The railway system in China is yet in its infancy, but the country promises soon to be gridironed with bands of steel, which will open a new chapter in her economic life. In addition to the four roads already in operation to the extent of nearly a thousand miles, not less than five great lines are in process of construction, which will connect the chief cities of the interior and the coast, and concessions for half a dozen others have been granted, the plans for which are being rapidly perfected.

With the unification of national economic life, which will come to China with the extension of railways, must inevitably come also many other elements of western civilization. Among these will be the use of money and the adoption of modern methods of credit. Wherever a railway is in process of construction, coined money will be required for buying the products of the country and paying wages. Wherever a railway is in operation, money will be the only practicable medium for paying freights. Hence railway extension will open new fields for the use of money and introduce masses of the Chinese people to the commercial habits of the West. One of the next logical steps, therefore, in the opening of China to western civilization will be the adoption of a national system of currency.

China has at present no national currency. So far as coined money is used at all, it consists of foreign coins. The Mexican silver dollar has been for three centuries current on the seaboard. Recently it has encountered competition from the British dollar of the same weight and value, coined at Bombay, and from the French piaster, also of the same weight and value, coined at Paris for the use of the French possessions in Indo-China. But in the interior of the Celestial Empire coined money is not used at all. There is a medium of exchange, however, in the form of copper cash and silver shoes or sycee, the latter being cut into parts to meet the needs of different transactions.

The people of the interior of China probably have not yet realized the extent to which the lack of coined money hampers the development of trade. On the seacoast, however, another element has entered into the problem, which is stimulating the demand, even among the Chinese merchants, for sweeping reform in the monetary system. This element is the frequent change in the gold price of silver bullion. All the silver coins in use in China circulate substantially for their bullion value and upon the silver basis. For many years the disadvantages of the fall of silver were felt in China, but they have become acute during the past two years, when silver fell from about 30½d. per ounce in the summer of 1900 to about 25d. in the autumn of that year, and again from that figure to 21½d. in November of 1902. The last fall produced a paralyzing effect upon the import trade of both foreign and Chinese merchants doing business in China, and by reducing the gold value of the public revenue crippled the Government in its ability to meet the indemnity payments to the Powers.

When Mexico, therefore, appealed to China to cooperate in seeking some remedy for the fluctuations of exchange with the gold countries, she received a prompt response. Mexico has been progressing rapidly

in recent years. This progress has been interpreted by some of the ardent friends of silver as due to the monetary standard rather than to the energy of the people, the extension of railways, the abolition in 1896 of tariff barriers between the States, and the many other economic and political reforms introduced by President Diaz and the group of able men around him. Mexico has begun to recognize, however, the great disadvantage of a monetary standard which differs from that of the commercial countries with which she deals. Not only is her import and export trade seriously hampered, but hundreds of millions of capital which would eagerly be invested in the extension of her railways and the development of her lead and copper mines are withheld because of the fear that if converted from gold into silver its gold value might fall to a point which would extinguish even very considerable silver profits.

Mexico and China, therefore, joined, in January last, in asking the United States to aid them in presenting to other governments the question of securing the stability of exchange between the currencies of the gold-standard and of the silver-using countries. President Roosevelt, under the authority of Congress, responded by the appointment of a commission, composed of Hugh H. Hanna, Charles A. Conant, and Jeremiah W. Jenks, which has recently concluded its presentation of the subject to the European Powers having large commercial interests in the Chinese Empire.

The first aim of the American and Mexican commissions has been to put China upon the gold standard. They recognized from the first that such a policy was surrounded by difficulties, but they believed those difficulties could be overcome by patience, energy, and skill. The lack of any national monetary system whatever in China, while an obstacle in some ways to the introduction of a new system, is in other ways an advantage. The Chinese Government escapes the burden which it would be compelled to assume if it had to undertake, as Russia did in 1894 or as Spain is trying to do at the present time, to raise a great mass of depreciated paper or silver to a fixed gold par. For China there is no such problem, because her Government is not responsible legally or morally for the coins of foreign countries in circulation in her seaports. She is undoubtedly bound by the highest considerations of financial policy not to take any step which will paralyze commerce and destroy confidence, but this she will be able to do, under intelligent management, without assuming the burden of redeeming at an enhanced gold value the money now in circulation.

Another element of difficulty in the introduction of a new system into China lies in the privileges now enjoyed by the viceroys in regard to coinage and by the local Chinese bankers in drawing profits from the exchange of moneys. In the introduction of a national monetary system it is essential that the right to coin and issue money shall be concentrated in the hands of the central government. The power of the viceroys, however, is too great to allow of their privileges being taken away abruptly and without their consent. Fortunately for the future of China, the viceroys in several of the leading provinces are now men of ability, foresight, and patriotism, and are themselves likely to aid powerfully in giving China the benefits of a national monetary system. Through reorganization of the taxes and perhaps the payment of commissions in distributing the new money, some compensation for taking away the right of coinage can be made, which will prevent heavy loss of revenue of the viceroys in the early stages of the new system. The local bankers, who

make large profits by the exchange of the silver sycee and the copper cash, might also oppose the new system if similar compensation were not made to them in the distribution of the new currency.

The attitude of the foreign banks doing business in China is an important factor in the introduction of a new monetary system. They have made great profits during the last few years by the fluctuations in the exchange with European countries and with the United States. It might seem that the foreign bankers would hesitate to renounce these profits and would oppose the introduction of a uniform monetary system. The more the subject has been discussed, however, the more the bankers have realized that enlightened self-interest, as well as sound public policy, demands a system which will reduce the fluctuations of exchange to the usual limitations between gold countries. On the Commissions appointed to meet the Mexican and American Commissions at London, Paris, Berlin, and St. Petersburg sat representatives of the great banks doing business in the Orient—the Hong-kong and Shanghai Bank for Great Britain, the Bank of Indo-China for France, the German-Asiatic Bank for Germany, and the Russo-Chinese Bank for Russia. These gentlemen all agreed that the gold standard for China was ultimately desirable and that measures should be taken as soon as practicable to put it into effect. They appeared to be influenced by the consideration that what tended to China's industrial development would eventually benefit those who conducted her banking business.

If the new standard were to go into effect within ninety days throughout the Empire, undoubtedly losses to the banks would occur, so heavy as to cause them to hesitate from motives of self-preservation to see it established. It is clear, however, that even if difficulties give way with unexpected ease, its introduction must be gradual. Introduced probably at first in the cities of the coast, where coin is already familiar to the people, it will be extended through one coast province to another, and will then make its way into the interior, as the people there find how much more convenient are coins of uniform size and ascertained value than the silver bullion which has to be weighed and assayed every time it is used. Exchange between the cities on the coast and the interior will continue to fluctuate, and the banks will continue to derive profits from this source and from others related to the introduction of the new system while they gradually readjust their methods to the new economic future of China which will grow out of the extension of railways, the introduction of foreign capital, and the expansion of her import and export trade.

What is meant by introducing the gold standard into China deserves explanation. Upon its face the proposition appears to many persons to be impracticable. If China were to acquire a gold currency of \$3 per capita, which is about one-tenth the monetary stock of the people of the United States, her population of 400,000,000 would require \$1,200,000,000 of gold. This would mean a draft upon the world's gold resources equal to one-quarter of the entire existing stock. The rich nations of Europe and America would undergo a monetary crisis if such a demand were successfully made upon them; and the financial resources of China would be utterly incapable of making such a demand successfully upon nations so strong financially and so vitally interested in keeping their gold. In short, China could not get the gold.

How, then, is China to set up the gold standard? Can she have a gold standard without a gold circulation? If this question had been

asked a generation or two ago, without the experience of many nations in recent years, it would probably have received an emphatic negative. Fortunately, however, the question has been answered in many lands under diverse conditions in a manner which justifies a decisive answer in the affirmative. British India has to-day a gold standard without a gold currency; the Netherlands have had for thirty years a gold standard without a gold currency. Belgium is in nearly the same position. France has now a considerable stock of gold, but since 1875 she has maintained at gold par several hundred millions of silver. The United States have done the same thing. Their \$650,000,000 in silver, if sold in the bullion market at present prices, would net about \$300,000,000. The difference between the face value and the bullion value represents the power of certain economic laws to maintain a token currency at par with gold.

Three means may be counted upon to maintain a silver currency at par with gold. These are (1) limitation of the quantity of coinage; (2) acceptance of the coins at gold par for public dues, and in execution of ordinary contracts in legal-tender money, (3) the maintenance of a gold reserve or gold exchange funds.

The limitation of the coinage in itself goes far to maintain the value of a currency. There is always a certain demand for legal-tender money, partly for settling the customary transactions of retail trade; partly for the payment of more formal contracts for longer terms, and partly for reserves of banks and merchants likely to be called upon to make money payments. It is upon the principle that a certain proportion of legal-tender money will be required, even under the most adverse conditions, that the Bank of England is allowed to issue over £16,000,000 in bank notes without any metallic reserve. In the revision of the charter of the Bank of England in 1844 stress was laid upon the point that the limit of "uncovered issues" (not protected by any metallic reserve) should be fixed at the minimum of the demand for bank notes as shown by the previous history of the circulation. Within such limits it may fairly be argued that the money issued will not return to the issuer for redemption, because it will be constantly required for carrying on the internal trade of the country. This principle of scarcity is a potent factor in keeping up the value of money, but is far from being satisfactory as the sole method of governing the money of a country. If the principle is carried too far, it makes money scarce and interest rates high; if it is not carried far enough, it fails to maintain absolute parity by permitting the quantity of currency at times to exceed the demand.

The acceptance of money for public dues goes far to maintain its value, if it is not issued in excess. This was demonstrated by the history of the first Treasury notes issued in the civil war, which were made receivable for customs duties at par with gold, a privilege which was refused to the later issues of greenbacks. There being a demand for a certain amount of money to pay customs duties and these notes being the equivalent of gold for such payments, they could always command a gold price substantially fixed, so long as the supply was not beyond the demand for this purpose. The acceptance of any money for public dues constitutes a system of indirect redemption. So long as a vent can be found for the money at the custom-houses, at the post-offices, in the purchase of internal-revenue stamps, and at the tax offices of city, State, and nation, every holder of such money knows at least one place at which he can employ it at its full legal value. If the quantity, therefore, is not far beyond requirements for

public dues and retail trade, this system of indirect redemption is an important factor in keeping up the value of the money.

These two principles—limitation of the coinage and acceptance for public dues—have been the controlling factors in keeping up the value of the silver coins of the United States and of all the countries of the Latin Union since their value as bullion fell below gold par in the early seventies. They do not in themselves, however, afford the complete guaranty of stability which is required in a sound monetary system. The third and conclusive method is the maintenance of a gold fund to take up any excess which may develop in the volume of local currency. Whenever an excess appears in the currency of a country, that excess tends to go to other countries where it is likely to earn a higher return. The only money which is thus accepted abroad among commercial nations to-day is gold. A nation, therefore, which proposes to maintain its currency at absolute equality with gold must face the necessity of furnishing gold on demand for export. This is, perhaps, the most vital principle in the maintenance of a gold standard—that while tokens and instruments of credit serve well the purposes of interior circulation, they must respond to the touchstone of exchangeability with gold to meet demands abroad.

Inasmuch, however, as the demand for gold is a demand for the use of the metal in other countries rather than at home, such a demand will be effectively met by furnishing the gold at the points where it is intended to be delivered. What has been done by the government of the Philippine Islands is to establish a gold fund in New York, against which drafts can be delivered entitling the holder to gold at New York. It is a similar policy which is proposed by the Government of Mexico in establishing its monetary system upon stable foundations. It is a similar policy which will be recommended to the Government of China as a means of securing the gold standard. If gold funds are kept at the leading financial centers—London, Paris, Berlin, St. Petersburg, and New York—drafts can be sold upon these funds whenever there is a demand for gold for making payments abroad.

There is one essential condition to the successful operation of this system. This is that whenever drafts are sold for local currency the local currency paid for them shall be locked up and withdrawn from circulation. This operates to reduce the redundancy of the currency at home, to stiffen the rates for interest, and ultimately to influence the prices of commodities in a downward direction. Hence the new system will operate under this arrangement with the same automatic precision in regulating the volume of the currency as in a country with a gold currency, like Great Britain, where the withdrawal of gold reduces the volume of the circulation, and by making money scarce reacts upon the rates of interest. When these operations have produced their effect and there comes later a renewed demand for currency at home, that demand can be met by the deposit of gold in the reserves at the leading centers, thus replenishing the stocks reduced by the previous demands and releasing local currency to meet the demands for increased circulation. This is substantially the plan which has been in successful operation in British India, where rupees are paid out at a fixed rate for the gold coin of Great Britain.

Upon a plan like this, tending to unify the currency of China and bring her into the circle of the great commercial nations, the Mexican and American Commissions on International Exchange secured the substantial agreement of all the great Powers of Europe. That a national currency was desirable and that the only practicable means

of attaining it was through a gold-exchange standard substantially on the lines above set forth was the unanimous expression of the commissions appointed at London, Paris, The Hague, Berlin, and St. Petersburg. The only difference of opinion upon the currency of China developed over the question whether it was preferable to adopt a currency fixed from the beginning at a definite relation to gold or to saturate the country with a uniform silver currency first and afterwards take steps to raise it by degrees by Government and banking control over the exchanges to a fixed gold value. The former plan was uniformly presented and urged by the Mexican and American Commissions, and the principle was indorsed in France, Germany, and Holland. The latter plan was considered somewhat more practicable in England and Russia.

The ultimate decision of the question will undoubtedly be made upon the ground in China. In order that it may be presented properly to the Chinese Government, Professor Jenks, a member of the American Commission, is now on his way to China bearing credentials from President Roosevelt. If careful examination shows that the inauguration of the gold standard from the outset, on the basis of the Philippine currency, is surrounded by too many difficulties, then the other plan may be considered; but the American Commission was strengthened rather than weakened in their position by the discussions which took place at the various capitals. They strongly believe that no system should be inaugurated in China which does not provide at the outset for definite steps toward giving the currency a fixed relation to gold. It was for the purpose of securing stability of exchange that they were appointed, and that purpose they have steadily kept in view in their discussions with the representatives of other governments. In any case they have the full approval of every leading Power for presenting to China the subject of giving uniformity and stability to her currency at the earliest practicable moment.

Subordinate to the fundamental proposition of giving stability to the currency of China was the subject of approximate uniformity in the currencies of other oriental countries and dependencies. The Mexican and American Commissions suggested that the silver coins to be issued in oriental countries preparing to reorganize their monetary systems should be issued at a ratio of about 32 to 1. This ratio was chosen for the Philippines because it corresponded roughly to the market price of silver, but left a sufficient margin between the face value and the bullion value of the new coins for fluctuations in the price of the metal. It is obvious that if a coin were adopted which represented the gold price of silver at a given moment, and silver should afterwards rise in price, the silver coins would become more valuable as bullion than as coins. They would go to the melting pot, and the country would be denuded of its currency. For this reason a margin of about 15 per cent between the bullion value of the coins and the value given them by law was adopted in the Philippines, and has caused no difficulties in the acceptance of the coins at their full face value. The Government of Mexico contemplates a similar ratio, and its wisdom was approved by the Governments of Great Britain and France, which are preparing to give a fixed gold value to their currencies in the Straits Settlements and Indo-China.

So frequently has the word "ratio" been used as a part of the nomenclature of bimetallism that it is important to state that it is not used in such a relation here. It is not intended, by adopting a ratio in China or the Straits, to attempt to fix the gold price of silver

bullion at that ratio. The ratio is simply a relation chosen for convenience between the weight of metal in the gold unit and that in the silver coins. It is not a relation of value. It is in the power of governments, within certain limits, to fix the value of coins, not of commodities. They can do this in the case of coins by taking into their own hands the control of the supply in relation to the demand, and by offering to take care of the supply when it exceeds demand by taking it from the holder for gold. Only in this sense has a ratio been recommended.

Upon the relation of these measures to the price of silver bullion it is proper to say a word. Misapprehension has arisen in some quarters in the United States upon this subject, and some criticisms have been pronounced upon the Mexican and American Commissions on the ground that they were trying to "do something for silver." It would seem that the previous record of the members of the American Commission as consistent advocates of the gold standard should have protected them from the imputation of such absurd projects as were occasionally attributed to them. They were instructed to labor to secure stability of exchange between the gold countries and the silver-using countries. That such stability could be secured permanently by any other means than the adoption by the silver countries of the gold standard was never for a moment contemplated.

It is not practicable, in the opinion of the American Commission, to seek stability for silver, under present conditions, through any of the methods pursued under the name of bimetallism. All that was attempted was to ask those governments which had occasion to make purchases of silver from time to time for their subsidiary currency or for their dependencies to so distribute such necessary purchases in regard to time as to diminish the irregularity of their demands. The object of such a policy would not be to raise the price of silver, but simply to average the price by averaging the purchases. Such a policy could not be counted upon in itself to prevent the downward course of silver if this downward course was the result of permanent economic causes. In so far as it might prevent an abnormal rise at one time and an abnormal fall at another, producing approximation at all times toward the mean price instead of violent movements up and down, such a policy would contribute primarily toward the stability of silver bullion. What is much more important, it would contribute toward the stability of exchange between the gold countries and the silver-using countries. All that was suggested on this point, however, was subsidiary to placing China upon a definite gold basis. The views of the Mexican and American Commissions elicited at every capital but one where the subject was considered the cordial approval of the foreign commissions, and their declaration that, so far as fiscal conditions permitted, they would be governed in future by the policy of regularity of purchases.

The ultimate aim of the project of putting China and other silver-using countries upon the gold standard is to promote the commerce of the world. The United States are interested in this object in a particular sense and in a general sense. In a particular sense they have to consider the trade of the Philippine Islands with China and with other silver-using countries in the Orient. The trade of the Philippines is already larger with gold countries than with silver countries, because the gold countries include British India, Australia, and Japan, from whom are bought many of the necessities of life used in the Philippines. If the other countries of the Orient, includ-

ing not only China, but the English and French possessions, go upon the gold standard, it will facilitate the trade of those countries with the Philippines to the mutual benefit of all.

It is in the broader general sense of promoting her own export trade, however, that the United States is perhaps more keenly interested than any other country, with the possible exception of Great Britain, in giving stability to exchange with China. How important is stability of exchange in promoting trade is known best to those merchants who have suffered the effects of fluctuation in wiping out their profits and driving them into the dangerous field of speculation in exchange. Between two gold-standard countries importer and exporter can count with certainty upon getting a full return in gold for the goods which they sell. In trade between gold and silver countries either the exporter from the gold country or the importer in the silver country runs serious risk of finding his profits wiped out by a fall in the gold value of silver. If a consignment of merchandise worth \$1,000 in gold had arrived in Shanghai in July, 1902, when the price of silver was  $24\frac{3}{16}$ d. to  $24\frac{9}{16}$ d., it would have brought in silver about 2,310 Mexican dollars. A gold bill of exchange for the settlement of the invoice would have cost this amount to the Chinese importer or to the foreigner carrying on import business in China. Only four months later, in November, 1902, silver fell to a minimum of  $21\frac{5}{16}$ d., and it would then have cost about 2,700 Mexican dollars to buy a bill of exchange on London sufficient to settle the invoice. If the importer in China had in the meantime sold his goods at an estimated profit of 10 per cent on the silver price of July, he would have found 2,540 Mexican dollars in his hands, or less by 160 dollars than the amount required to pay his invoice. Thus, he would be not only without profit, but would be a heavy loser in interest on his money and in the costs of distributing his goods.

Such conditions can only tend to bring trade to a standstill and to force both the exporter and importer to live from hand to mouth. More important, perhaps, with regard to the ultimate prosperity of both the gold and silver countries is the effect of unstable exchange upon the investment of capital. In Mexico it is estimated that \$700,000,000 of American capital has already been invested for the extension of railways, the development of mines, and the building of smelting works and factories. This process has recently been checked by the fluctuations in the gold value of silver. To a more marked degree has enterprise been checked in temporary loans. Capital in Mexico is still inadequate, and a Mexican banker can loan with prudence large sums for the development of the country at from 8 to 10 per cent. There are often times when he could get the money in Paris, Brussels, or Berlin at 3 per cent, making 5 per cent or more directly by reloaning it. But such loans must be repaid in gold within a short period. When the fall of silver within four months amounts to 20 per cent, a banker who should make loans, even upon the best security at the highest rates, would be courting ruin in borrowing a million francs in July at a silver cost of 460,000 Mexican dollars in silver, to repay which it would cost him in November 550,000 silver dollars. His profits in interests in six months would be 11,250 silver dollars; his loss, by the fall of exchange, in transferring the money back to Europe would be 90,000 silver dollars.

Thus, the borrower in a silver country can, under present conditions look for no aid abroad. The promoter of new enterprises is prevented from taking any steps to develop the natural resources of

the country. The loss is perhaps equally great to the owner of capital in the gold country, who could himself invest at a handsome profit in loans, in bills of exchange, and in the shares of mines and railways in Mexico and China, if he could count upon a safe return. The rupture of the par of exchange between gold and silver countries has undoubtedly done much to divide the world into two halves, those using gold and those using silver. It has tended to congest unused capital in the rich countries, with a depressing effect upon rates of interest, the return upon the investments of widows, orphans, and those who hope to save a competence for old age, and has left the silver countries to struggle along with insufficient means for developing the treasures of nature which are locked in their soil.

This rupture of the par of exchange was always one of the strongest arguments in favor of international bimetallism; but international bimetallism involved too great a reversal of the policy of the gold countries to be a workable remedy, even if it were in any sense a desirable one. The Commission on International Exchange are seeking a remedy along those lines, which, without impairing in any way the gold-standard system of the advanced countries, will make possible again the free flow of capital and enterprise between those countries and the undeveloped countries, whose virgin soil needs their touch to enter upon the great career of economic development which has marked the history of the gold-standard, machine-using, capitalistic countries during the past half century.

It was a high tribute to the disinterestedness of the United States that China should appeal to her for assistance in putting her monetary system on a sound basis. If Secretary Hay succeeds in carrying out the project for a uniform monetary system in China, he will add another shapely stone to the edifice of diplomatic triumphs which he has raised by securing the open door and protecting the integrity of China. The interest of Americans in China is simply to find wider markets. This is an interest which is consistent in every way with the progress and prosperity of China. Wide markets can best be found by increasing the purchasing power of the Chinese people. Increased purchasing power is the result of increased prosperity, of which a sound currency, as America herself has found to her cost, is a vital element. The fact that the United States were in a better position, perhaps, than any other country to take the lead in presenting the subject to China was freely acknowledged at many European capitals. It is to be hoped that the opportunity thus opened to enhance our national prestige as well as to increase our commerce will be accepted with the same foresight and enlightened courage which have marked the other measures of our policy in the Orient.

## APPENDIX F.

### THE CURRENCY SYSTEM OF THE STRAITS SETTLEMENTS.

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#### I.—REPORT TO THE RIGHT HON. JOSEPH CHAMBERLAIN, M. P., SECRETARY OF STATE FOR THE COLONIES.

The instructions issued to the committee appointed to consider the question of the establishment of a gold standard in the Straits Settlements and the neighboring Malay States are contained in a letter from the colonial office to the chairman of the committee, dated the 12th of November, 1902. In this letter the committee were asked to make a report with reference to “(1) the expediency or otherwise of introducing a gold standard of currency in the Straits Settlements and the neighboring Malay States; (2) the practicability of making the change and the steps which in the opinion of the committee should be taken to effect this object if the change should be decided on.”

2. The letter proceeded to say, “With regard to the expediency of the change Mr. Chamberlain realizes that the committee may not feel themselves in a position to offer final advice on the subject, but in that case he trusts that they will be able to indicate the lines on which further investigation should be made locally before a final decision is come to.”

#### COUNTRIES FALLING WITHIN THE SCOPE OF THE COMMITTEE'S INQUIRY.

3. The committee apprehend that, in addition to the colony of the Straits Settlements, the scope of their inquiry includes the Federated Malay States of Perak, Selangor, Negri Sembilan, and Pahang, and also the State of Johore. In the opinion of the committee it is desirable that the standard of value and the currency of the Straits Settlements and the Federated Malay States should continue to be identical, and they hold the same opinion with regard to Johore.

4. There already exists an agreement between the secretary of state for the colonies and the sultan of Johore regarding the supply of the subsidiary coins of the Straits Settlements for use in Johore, but altogether apart from this agreement the committee consider that Johore should, on general grounds, be included in any scheme that may be decided on for the Straits Settlements and the Federated Malay States, and this is in accordance with the opinion of the representative of the Sultan and government of Johore in this country, who appeared as a witness before the committee.

5. The committee have learned <sup>a</sup> that Sarawak is anxious to join in a scheme, but they do not consider that any colonies or states other than those already specified fall within the scope of their inquiry.

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<sup>a</sup> Appendix 18 (7).

## EXISTING CURRENCY.

6. The currency of the Straits Settlements is regulated by an order in council of the 2d of February, 1895, as amended by the subsequent order in council of the 20th of October, 1898. The standard coin is the silver Mexican dollar, of 902.7 millesimal fineness, with a minimum weight of 411 grains. The British dollar and the Hongkong dollar of 900 millesimal fineness and a minimum current weight of 411 grains are, under the orders in council, treated as equal to the standard coin. The Japanese dollar or yen, of the same weight and fineness as the British dollar, was, under the earlier of the two orders in council, placed on the same footing as the British dollar, but was demonetized by a subsequent order in council.

7. The dollar is divided into 100 cents, and the following subsidiary coins are made legal tender under the order in council of the 2d of February, 1895: Straits Settlements silver pieces of 50, 20, 10, and 5 cents of 800 millesimal fineness, and Straits Settlements copper or mixed metal pieces of 1 cent, a half cent, and a quarter cent. The limit of legal tender in the case of silver subsidiary coins is two dollars, and in the case of copper or mixed metal coins one dollar.

8. By enactments in the different Federated Malay States the same currency is established, with the exception that the Hongkong dollar is not placed on the same footing as the standard coin.

9. As regards Johore, the committee have no definite information as to what is legal tender in that State, but they understand that Johore has no currency of its own, and that it uses all the coins that are accepted as legal tender in the Straits Settlements, the whole trade of the State being with Singapore. The agreement with Johore of 1885, which deals with the supply of subsidiary coinage to the State, has already been referred to. If it is decided to establish a gold standard in the Straits Settlements and if Johore is included in that scheme, it would be necessary that a definite understanding should be arrived at as to the use of the Straits currency of unlimited legal tender in the Johore State.

## NOTE ISSUES.

10. The Government note issue in the Straits Settlements is regulated by ordinance No. 4 of 1899. These notes may be for the following denominations: One, five, ten, twenty, fifty, or one hundred dollars, and for any multiple of one hundred dollars. They are legal tender in the Settlements for the amount expressed therein, except a tender by the commissioners of currency at their office or a tender in redemption of its own notes by any bank lawfully authorized to issue notes, but no Government notes of the denomination of one dollar can be legal tender for a greater sum than ten dollars. No notes of one dollar have yet been issued.

11. The Government notes of the Straits Settlements have been made legal tender in the Federated Malay States by local enactments, subject to the same limitation in the case of one-dollar notes (if such notes were issued).

12. The Government notes are covered by a reserve partly in coin and partly in securities. The minimum legal coin reserve was originally two-thirds of the whole. Its reduction to one-half of the whole has lately been sanctioned.

13. There are two banks in the colony authorized, subject to certain conditions, to issue notes payable to bearer on demand, the Hongkong and Shanghai Bank and the Chartered Bank of India, Australia, and China. The notes issued by these banks are not legal tender in the Straits Settlements, though they circulate freely. The authority to issue expires in December, 1904, in the case of the Chartered Bank, and in August, 1908, in the case of the Hongkong and Shanghai Bank.

14. It may be mentioned that under enactments in the Federated Malay States it is unlawful for any bank to make or issue within the States bank notes payable to bearer on demand. This does not prevent the circulation of the bank notes now in question.

#### RECENT HISTORY OF CURRENCY IN THE STRAITS SETTLEMENTS.<sup>a</sup>

15. On the transfer of the Straits Settlements from the charge of the Indian to that of the Imperial Government, which came into operation in 1867, an ordinance was passed by the local legislature repealing all laws for making Indian coins legal tender, and declaring that from the 1st of April, 1867, "the dollar issued from Her Majesty's mint at Hongkong, the silver dollar of Spain, Mexico, Peru, and Bolivia, and any other silver dollar to be specified from time to time by the governor in council, shall be the only legal tender," with the exception of certain subsidiary coins.

16. Subsidiary silver and copper coins were supplied from the Hongkong mint, but on the closing of that mint in 1868, two years after its opening, it became necessary for the Straits to provide their own subsidiary coinage, and since 1871 the subsidiary silver coins have been struck at the royal mint. The total amount of such coins struck at the royal mint from 1871 to 1901, inclusive, was 6,462,000 dollars, and a further amount of 750,000 dollars was struck in 1902, up to the 17th of November. So far as the mint are aware, all these coins are still in circulation. The value of the different denominations of subsidiary silver coins struck since 1871 will be found in Appendix 19, Table IX. The subsidiary copper coin issued in the Straits Settlements in the years 1871-1902 amounted to the nominal value of 1,887,500 dollars.

17. By order of the governor in council of the 10th of January, 1874, the American trade dollar and the Japanese yen were admitted to unlimited legal tender.

18. Under order in council of the 21st of October, 1890, all laws regulating legal tender in the colony were repealed. The Mexican dollar was by that order constituted the standard, and the American trade dollar, the Japanese yen, and the Hongkong dollar and half-dollar were made unlimited legal tender. The Straits Settlements half-dollar and other subsidiary silver coins, of 800 millesimal fineness, were made legal tender for an amount of two dollars, and the colonial copper or mixed metal coins were made legal tender for an amount of one dollar.

19. Under ordinance No. 2, of 1891, the governor in council was given power to prohibit the importation into the colony or the circulation therein of coins not being legal tender. The importation of certain copper or bronze coins which had ceased to be legal tender under the order in council of the 21st of October, 1890, was subsequently prohibited under this ordinance.

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<sup>a</sup> Full information as to the history of currency in the Straits Settlements will be found in the "History of Currency in the British Colonies," by Robert Chalmers (Eyre and Spottiswoode, 1893).

20. The orders in council of the 2d of February, 1895, and of the 20th of October, 1898, which regulate the existing currency, have already been referred to. It is only necessary to add that under the first of these orders the United States trade dollar, which had ceased to be struck in 1878, became no longer legal tender, while the demonetization of the yen under the order in council of 1898 was the result of the establishment of a gold standard by Japan and the demonetization of the silver yen in its country of origin.

21. Ordinance 11 of 1898 prohibited the importation of yen. The penalties imposed by the ordinance did not apply to Japanese yen imported for transshipment under a license from the colonial secretary.

#### ACTUAL CIRCULATION.

22. The actual circulation of the Straits Settlements, the Federated Malay States, and Johore at the present time is composed of—

*I. British, Mexican, and Hongkong dollars.*—The amount of Hongkong dollars still in circulation is so small that it may be neglected. It is impossible to form a reliable estimate of the number of British and Mexican dollars circulating in the Settlements, the Malay States, and Johore; but the colonial treasurer roughly estimates the number at 30,000,000 dollars. This total, which is only put forward as a guess, includes the specie reserve against the Government note issue and cash in the banks.

*II. Subsidiary silver coins.*—The amount issued since 1871 is 7,212,000 dollars (nominal). It is estimated by the colonial treasurer that of this amount 300,000 dollars is in foreign countries.

*III. Subsidiary copper coins.*—The amount issued since 1871 is 1,887,500 dollars (nominal).

*IV. Government note issue.*—The amount in circulation on the 10th of December, 1902, was 13,393,440 dollars. Against this 8,714,555.75 dollars were held in coin on the same date.

*V. Bank notes.*—The average monthly circulation in 1901 was 5,473,755 dollars. The figure for 1902 is not yet available.

#### QUESTION OF A CHANGE IN CURRENCY.

23. The history of the consideration of a gold standard for the Straits Settlements need not be traced back further than the year 1893. As a result of the report of the Indian currency committee in that year, the Indian mints were closed to the free coinage of silver, and later in the year a departmental committee, presided over by the late Lord Herschell, was appointed to consider the currency questions in the Eastern colonies. The proceedings of that committee were not published, but they have been laid before the present committee.

24. While the former committee was sitting at the colonial office the secretary of state telegraphed to the governor of the Straits Settlements asking for a full report as to the remedial measures suggested for securing greater fixity in the rate of exchange. The governor replied that great difference of opinion existed, that it was impossible to state remedial measures which would be approved by Europeans and natives, and that he had appointed a local committee to consider the matter, consisting of Government officials and members of the chamber of commerce.

25. The report of the local committee is printed among the appendixes to our report. It will be seen that half the members of that

committee, including all the native members, were in favor of the maintenance of a silver standard. The acting governor laid the report before his executive council and invited their opinions upon it, especially regarding the question whether the policy of the government should be to adopt a gold standard or adhere to free silver. Opinions were equally divided. The acting governor's own opinion in favor of a gold standard was conveyed in the first section of the report, which he had signed as member of the committee.

26. The currency committee appointed by the secretary of state for the colonies issued no report and made no recommendation in regard to any change in the standard of currency of the Straits Settlements, but advised that, owing to the scarcity of Mexican dollars at that time, a British dollar should be issued for circulation in the Straits Settlements and other Eastern colonies. This recommendation was adopted, and the British dollar was made legal tender in Hongkong, the Straits Settlements, and Labuan.

27. The amount of British dollars imported into the Straits Settlements by the banks from 1895 (the year in which they were first coined) to 1901, inclusive, was 119,224,442 dollars. During the same period 80,883,437 other dollars were imported, making a total importation of 200,107,879 dollars. The recorded exportations 1895-1901 amounted to 170,732,168 dollars. This exportation of dollars is of course exclusive of the amount of dollars taken out of the colony by returning Chinese immigrants, an amount which is impossible to ascertain, but which may be considerable. It is not known what portion of the total amount exported consisted of British dollars.

28. The question of a gold standard for the Straits Settlements was raised again in 1897. In that year a subcommittee was appointed by the committee of the Singapore chamber of commerce "to inquire into the local currency with the view of calling attention of government to the question of converting the Straits currency to a gold standard." The report of the subcommittee is printed among the appendixes. The governor's dispatch of the 9th of March, sending home the report and criticising its proposals, will be found among the appendixes to the report of the Indian currency committee of 1898. The statistics on which this report was based will be found (amended and brought up to date) in a recent letter from the chamber of commerce which has been laid before us (Appendix 18 (12)). A criticism of the scheme as it affected the Federated Malay States, by the resident-general, now the governor of the colony and high commissioner of the Federated States, will be found in Appendix 18 (4).

29. In view of the difference of opinion prevailing in the colony, and of the criticisms of the governor and the resident-general, the question of a change in the standard was allowed to rest until last year. On the 9th of June, 1902, a letter was addressed to the colonial government by the Singapore Chamber of Commerce, asking whether "in view of the recent serious decline in the value of the dollar current here, the violent fluctuations in the price of silver, and the extreme uncertainty as to the future of this metal, all of which are not only causing great inconvenience to the trade of the colony, but constitute grave obstacles to the development of its natural resources by stopping the flow of capital from other parts of the world," the Government were prepared, now that the question again pressed, to make investigation into the feasibility and expediency of securing fixity of exchange.

30. The governor replied that before the receipt of their letter he had decided to invite their views on the expediency of attempting to adopt an arrangement with neighboring countries for fixing an uniform relative value between the local currency and gold. The chamber of commerce replied that they did not think a scheme of cooperation with the neighboring countries possible of achievement, but they deferred further comment till a definite scheme was placed before them. They reiterated their request for inquiry by an expert, not necessarily on the spot.

31. The governor forwarded the correspondence to the secretary of state in a dispatch of the 16th of July, 1902, and asked that the general question might be referred to an expert, preferably with Indian experience. He added that it did not appear that whoever was appointed to conduct this investigation should necessarily do so on the spot. As a result of this dispatch from the governor the present committee were appointed with the terms of reference already stated.

#### EXPEDIENCY OF A CHANGE.

32. In considering the expediency of the proposed change in the standard of value of the Straits Settlements the committee have not thought it necessary to enter at any length into an examination of the many vexed questions, of a somewhat abstract and theoretical nature, which present themselves when a proposal is made for a change of the standard of value in any country. These questions have been dealt with by many writers during the last thirty years, and they have been very fully examined by a series of committees and royal commissions, beginning with the parliamentary committee of 1876, of which Mr. Goschen (now Lord Goschen) was chairman, and ending with the committee on the Indian currency, presided over by Sir Henry Fowler, in 1898-99.

33. The question at issue is whether it is better for the Straits Settlements and the neighboring Malay States, at the present time and under existing conditions, to maintain the silver standard or to change to a gold one, and the committee have endeavored as far as possible to treat the matter from a practical standpoint. In this view we have considered such papers and documents as would assist us in forming a correct view of the economic position of the Straits Settlements, as well as of the commercial and financial relations of that colony with the neighboring States.

34. We have also examined a number of witnesses, most of whom have had a personal experience of the modes of conducting business in the Straits Settlements and the East generally. These witnesses are not unanimous, but the majority of them are in favor of the establishment of a gold standard. The committee have tried to make their list of witnesses fairly representative of the different interests concerned, but from the nature of the case the witnesses we have examined have represented rather the classes who are in close connection with this and other European countries than the natives of the Straits Settlements and the adjoining Malay States or the Chinese who form so large a proportion of the population.

35. We see no reason, however, to think that the establishment of a gold standard could directly affect in an injurious manner the wage-earning classes in the Straits Settlements and the Federated Malay States, and we are disposed to think that such a change would,

at any rate for a time, have the opposite effect. These classes constitute the majority of the persons interested in the matter who have not been fully represented before us.

36. So far as the European community are concerned there can be little doubt that, whereas they were divided in opinion in 1897 and previously, they are now nearly unanimous in favor of a change to a gold standard. The committee have received a representation to the effect that it is absolutely essential that the currency should be placed on a gold basis with as little delay as possible, signed by almost all the firms and public companies of the Straits Settlements represented in this country and on the continent (bankers excepted). A petition has also been forwarded by the governor, signed not only by Europeans and those in receipt of salaries whose homes are in countries with gold standards (such as India and Ceylon), but also by a number of wealthy and influential Chinese, the revenue farmers, shipmasters, bankers, merchants, and landowners. The petitioners, without expressing any views as to the sterling value to be given to the dollar, express the opinion that it is extremely desirable that the legal currency of the colony and of the Federated Malay States should have a fixed relative value to the British sterling sovereign. The petition represents that violent fluctuations in exchange are very detrimental to the general interest of the colony; that even if the contention that a dollar of low value stimulates a portion of the trade of the colony be granted, it must without doubt be admitted that there are numerous interests which have been prejudicially affected by the severe fall in silver which has recently taken place, and that it is the opinion of those of the petitioners who desire a dollar of low value that there must be some point at which the advantages derived from low exchange become distinct disadvantages, and that this point has been passed.

37. The Singapore and Penang chambers of commerce and the municipality of Singapore favor a gold standard. In regard to the Federated Malay States opinion seems more divided. It is stated in the governor's telegram of the 25th of December<sup>a</sup> that the planters favor a gold standard and the Perak miners also. Other miners in the Federated Malay States prefer the existing silver standard of value. A petition, very numerously signed by all the principal Penang Asiatic traders, asks for a gold standard. A numerously signed petition in favor of a silver standard has been received by the governor from Singapore, the signatures being almost exclusively Chinese.

38. It is a matter of course that the immense majority of the people concerned in this inquiry are unable to support any opinion on the complicated question of the best standard of value by reasons which would stand examination. The fact remains that the majority of those able to form an opinion appear to be in favor of a change to a gold standard, the chief exceptions being the banking community and the mining community. The latter, if we accept those in receipt of money wages, have probably been the principal gainers from the continuous decline in the gold value of the dollar.

39. There is no question that the Straits Settlements and the adjoining Malay States have prospered under a silver standard. Trade has grown largely. The values of the imports and exports and the growth of trade during the last twenty years are shown in the following figures:

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<sup>a</sup> Appendix 18 (6). See also dispatches of December 29 and 30, Appendix 18 (13), (14).

## STRAITS SETTLEMENTS.

Year.	Imports.	Exports.
	<i>Dollars.</i>	<i>Dollars.</i>
1881 .....	84,599,397	77,925,962
1891 .....	135,886,217	125,805,772
1901 .....	310,381,094	266,553,270

## FEDERATED MALAY STATES.

	<i>Dollars.</i>	<i>Dollars.</i>
1882 .....	5,669,078	5,538,641
1892 .....	19,161,159	22,662,359
1901 .....	39,524,603	63,107,177

<sup>a</sup> Excluding Pahang, the value of whose imports and exports is very small.

These valuations are in silver, but even if the imports and exports for these years be valued in gold the increase is very great. Prosperity is everywhere apparent.

40. It is contended that there would have been the same or greater growth of trade and prosperity if a gold standard had been in existence for the last ten years. However that may be, we are of opinion that there must be a point at which the advantages said to be derived from a low or falling exchange cease and distinct disadvantages are experienced. As the dollar has now fallen in value from 4s. 2d. to about 1s. 7d., the time has come at which those interests which have continuously suffered from the fall may fairly claim to be protected from further loss, unless it should appear that the disadvantages of adopting the necessary remedial measures would outweigh the benefits to be derived therefrom.

41. Fluctuation in exchange is undoubtedly a grave disadvantage to the community generally. It introduces an element of speculation which constantly interferes with legitimate business. The introduction of a gold standard will not do away with this evil, but will transfer it from the trade with gold countries to the trade with silver countries. The trade with gold countries, however, is much larger than that with silver countries, as will be seen from the figures supplied by the Singapore Chamber of Commerce. (Appendix 18 (12).) This disproportion in favor of trade with gold countries will be increased by the recent addition of Siam to the list of gold countries, and the probable addition in the near future of the Philippines. The same course may be followed in other countries with which the Straits are in commercial relations and which now employ the silver standard, but we see no prospect of any such change being made in China, and the places immediately adjoining that country, which depend largely for their prosperity on their trade with it, will consequently have a strong inducement to maintain the same standard of value.

42. Although the aggregate of the trade with China and other silver-using countries is smaller in amount than that with gold countries, it has been represented to us that the number of transactions with the silver-using countries is larger, and that although the existing evils might be transferred to a different class of operations by the adoption of a gold standard, their magnitude would not really be reduced.

43. An important consideration is the difficulty under present conditions of obtaining capital from gold countries. The Straits government have now no debt, and the Federated Malay States have no

external debt. We understand, however, that the Straits government are contemplating the raising of loans for important public works. This capital can not be found locally except at high rates of interest, and if a gold loan is raised in London, a fall in exchange may impose an additional burden on the Straits government, both as regards payment of interest and repayment of capital. The same difficulty will be found by the municipality of Singapore, who are about to raise a loan of some £250,000. With rapidly developing countries such as the Straits and the Malay States, it is highly desirable to encourage the investment of European capital, and the absence of fixity of exchange with western countries undoubtedly discourages such investment, and may also tend to exclude British and other European traders.

44. The gold obligations of the Government are heavy in connection with the pay of their staff. They have now placed all the higher officials on sterling salaries. The pensions of retired officers involve a further gold obligation.

45. The recent fall in the gold value of silver not only aggravates the previously existing difficulties, but may give rise to further difficulties of the same class both in the case of the Straits government and of private persons. As to the future gold value of silver we are unwilling to express any opinion. The evidence given before us by Mr. Pixley is interesting and shows that there are no reasons to anticipate a further immediate fall of any magnitude. Other witnesses have expressed the same opinion, and, as it appears to us, on good grounds. But a very similar state of matters in the past has not unfrequently been followed by further and unexpected falls in gold value, and the future must be admitted to be quite uncertain.

46. It has been argued that as the Straits is a collecting and distributing center for purposes of trade, and as many of the countries with which it has commercial relations have hitherto had a silver standard and have used the same coins, the adoption of a gold standard may seriously affect its prosperity. We are not prepared to say that there is no force in this argument, but we think that too great weight may easily be attached to it. Singapore is a great center of trade by reason of its natural advantages and its freedom from customs duties. In these respects the adoption of a gold standard will not make any change.

47. In trade between silver countries and gold countries the difficulties of a fluctuating exchange must be encountered at some stage, and the evidence before us justifies the belief that the Chinese merchants who chiefly manage the trade between the Straits and the adjoining silver-using countries are as well fitted to deal with difficulties of that nature as merchants of any other nationality. Moreover, in any case where the countries adjoining the Straits Settlements now use or may hereafter adopt a gold standard the difficulties of a fluctuating exchange, so far as they arise from a difference of standard, will not be transferred, but wholly removed.

48. Our attention has also been called to the probable further fall in the value of silver which may follow the adoption of a gold standard by the Straits Settlements. We do not think that such a change would in itself have any considerable effect on the price of silver, but it would undoubtedly have some weight in inducing other countries to follow the same course and the cumulative effect of such changes might be considerable. On the other hand, it can hardly be expected that the Straits Settlements, if it should appear advantageous to adopt the gold standard, should sacrifice their own interests out of consideration for other countries.

49. There is a further objection to the establishment of a gold standard in the Straits Settlements which applies also to other Eastern countries, such as India, Java, Siam, and the Philippines. In such countries, although the standard may be gold, the coins in actual use must continue for an indefinite period to be mainly silver coins, and such coins must be of unlimited legal tender. With a sufficient gold reserve these coins can be maintained at their legal value so long as a settled government exists which is able to enforce its laws. If the government were destroyed and anarchy prevailed in any of these countries, the gold standard would disappear and the holders of the overvalued silver coins would suffer serious loss. The contingency is a remote one, and we do not think that in the case of the Straits Settlements greater weight need be attached to this objection than in the case of India, Java, or any other Eastern country under a civilized government.

50. It will be seen that, apart altogether from the question of practicability, there are arguments both for and against the expediency of establishing a gold standard in the Straits Settlements. We have tried to set out these arguments with impartiality, and while we do not think a gold standard should be pressed on the Straits Settlements against the wishes of the government and the people, we are equally of opinion that no objection should be raised on the part of His Majesty's Government to the principle of the change if the government of the Straits Settlements, after considering all sides of the question, should decide finally in favor of an alteration from the silver to the gold standard.

#### PRACTICABILITY OF A CHANGE.

51. If it is decided that the gold standard ought to be substituted in the Straits for the present silver standard, we are of opinion that such a change is practicable. Special difficulties are no doubt presented by the fact that at present the countries in question do not make use of standard coins which are peculiar to them. They employ the British and Mexican dollars which are current in the East generally, of which enormous quantities exist, and which may be indefinitely increased in number. Under these conditions it appears to us to be an indispensable part of any scheme for the establishment of a gold standard that there should be substituted for the Mexican and British dollars now in use a currency special to the Straits Settlements and under the control of its government, unless it should be decided to make use of the Indian rupee in somewhat the same manner as is followed in Ceylon and Mauritius.

52. The extension of the currency of India to the Straits Settlements was advocated by five of the members of the committee appointed in the colony in 1893, and it has been advocated by others. Supposing that the government of India would consent to such an extension of its currency—and we assume that in this matter the government of India would be consulted—we should still consider that the balance of advantage is against the proposal. It could scarcely be expected that the Indian government would, except possibly for the initial supply, issue rupees to the Straits on more favorable terms than to others, i. e., at the rate of 15 rupees to the pound sterling. If, therefore, the government of India did not make special arrangements, the cost to the community would be just the same as if 15 rupees were actually worth a sovereign. In any case the Indian government should, we think, enjoy the profit on future issues of rupees, and in return they

would of course be responsible for maintaining the gold value of the rupees supplied, as at present.

53. There would be much inconvenience in placing the currency and the system of accounts in the Straits on a rupee basis. The East India Company in 1855 adopted measures for forcing the rupee (which had previously been legal tender) into general circulation in the Straits and making it the only legal tender. Great inconvenience was experienced and public demonstrations took place, resulting in the project being countermanded. The dollar continued in general circulation without being legal tender, and Sir Hercules Robinson in 1863 pointed out the absurdities of a system by which rupees were used for government accounts, whilst the real monetary transactions of both the government and the public were conducted in dollars. We do not think that the community would take to the rupee much more kindly now than they have done in the past, and if the dollar and cents system is continued, as we recommend, it is obviously more convenient that rupees should not be in circulation and that the dollar should bear a fixed ratio to the sovereign and should not be quoted in terms of the rupee.

54. If the cost of a change to a gold standard is to be faced, we consider it advisable that the Straits government should maintain a gold standard themselves, incurring the initial cost and receiving any profit which may ultimately ensue from their own currency. We believe that the flourishing condition of the Settlements and the Malay States and the profit on overvalued coins will, with careful management, enable them to maintain it. It is true that the trade returns (see Appendix 18 (12), Return No. 19) show a large excess of imports over exports in the case of the Settlements, but it is agreed that those returns are only partial, and we do not believe that there is anything in the trade balance of the colony to make the maintenance of a gold standard specially difficult.

55. There are various methods which might be adopted for the establishment of an independent gold standard in the Straits Settlements. The first which we wish to mention is that of which the leading idea originated with a subcommittee of the Singapore Chamber of Commerce, and is explained in its report of 6th November, 1897. Under that proposal the Straits government would obtain a supply of notes of small denominations, especially of one-dollar notes. This supply would require to be amply sufficient to cover the whole number of Mexican and British dollars circulating in the area of the colony and the Malay States in which it is proposed to establish the gold standard. The object of obtaining these notes would be temporarily to substitute them for the Mexican and British dollars as the currency of the country, and, later on, to exchange these notes for coins of a new currency special to the Straits and issued on a gold basis. We have considered the details of the measures by which this could be carried out, but as for reasons given below we do not see our way to recommending the plan we have not thought it necessary to include them in this report.

56. If the procedure above indicated could be successfully followed the question of introducing a gold standard into the Straits Settlements would be solved in the speediest way, and solved in a form which would not impose any cost on the government. But the question whether the general population would quietly accept notes for coin throughout the country is one in regard to which we feel great doubt. From what is known of India we have no hesitation in saying that no such plan could have been or could be adopted in that country, and although the proposal was made by a subcommittee of the Singa-

pore Chamber of Commerce, and is supported by other persons who have practical experience of the country, we consider that the risk of its failure, owing to the possible suspicion and opposition on the part of the general native population, is so great that on the evidence before us we can not recommend its adoption.

57. The plan which we recommend is gradually to introduce a special Straits dollar of the same weight and fineness as the British dollar at present current in the East to be substituted for the Mexican and British dollars, the latter dollars being demonetized as soon as the supply of new dollars is sufficient to permit of this being done with safety. Under this plan it will be necessary for the Straits to obtain a considerable supply of the new dollars, and as soon as this is received the new dollars should be made full legal tender concurrently with the Mexican and British dollars, and steps should be taken to put them into circulation. The first supply of new dollars might be obtained (with the consent of the Indian government) by remitting to one of the Indian mints a portion of the coin reserve of the currency commissioners to be melted down and converted into the new Straits dollars, and this process might be continued until practically the whole of the coin reserve is converted into new dollars. If it was found that this was a slower process than was desirable, the Government could consider the expediency of purchasing silver for coining purposes.

58. Simultaneously with the arrival of the first supply of the new dollars, and with the making of them legal tender, the import of Mexican and British dollars should be temporarily prohibited and the export of the new dollars should also be prohibited. As there is ordinarily a large import of Mexican and British dollars into the Straits, and subsequent export of them, we think it likely that when their import is prohibited there would be a tendency toward a considerable drain of these coins from the Straits Settlements, and if the new dollars are freely supplied the change of currency might be completed without any great delay.

59. When the currency is so largely composed of the new dollars as to justify the measure, the Mexican and British dollars should be finally demonetized, and the Straits Settlements would then be in the position in which India was when the change of standard was undertaken in that country, with, however, the very important advantage that there would not be an enormous proportion of the new coins either hoarded or circulating in foreign countries, which might, by being thrown into circulation, indefinitely delay the establishment of the gold standard.

60. After the Straits Settlements had arrived at this stage the procedure might be exactly the same as it was in the case of India—i. e., after sufficient Straits dollars had been coined to meet the requirements of business in the colony and the adjoining states the coinage of dollars would cease until the exchange value of the dollar had reached whatever value in relation to the sovereign might be decided on by the Government as the future value of the Straits dollar. After this stage is reached the Straits government would issue the new dollars in exchange for gold and at the fixed rate.

61. When the gold standard is established it would not be indispensable that any gold coins should be made legal tender in the colony and the states. But the Government should be prepared not only to give in exchange for a sovereign such number of dollars as are hereafter declared equivalent to a sovereign, but also to give sovereigns in exchange for dollars at the same rate so long as gold is avail-

able, or to give bills on the Crown agents in London based on the fixed rate of exchange.

62. The above method would be rather slow in operation and would involve some, though not very great, expenditure; but it would be a perfectly safe and, we believe, sure method of establishing a gold standard, involving no risk and creating the minimum of disturbance, while we do not anticipate that any very serious delay would occur before the gold standard became effective. If the time within which the gold standard becomes effective is unduly prolonged the matter might be expedited by establishing a gold reserve, and in any case we think that the profit made on the coinage of dollars after the establishment of a gold standard should be set aside as a gold reserve, the whole or any portion of it being, if thought desirable, invested in gold securities.

63. There remain two matters on which we think it expedient to offer some observations. It has been represented to us that the trade of the Straits Settlements is accompanied and facilitated by a large import and reexport of silver dollars, and it is feared that that trade might be injured if either the import of Mexican and British dollars were prohibited or if Mexican and British dollars ceased to be the legal currency. As regards this matter, we desire to point out that the prohibition of the import of Mexican and British dollars would only be a temporary measure and that simultaneously the exchange of the new special Straits dollar for the existing currency would provide a supply of Mexican and British dollars more than sufficient to meet the wants of trade, while after the completion of the exchange and on the demonetization of the British and Mexican dollar, the prohibition of importation would be withdrawn and Mexican and British dollars might continue to be imported and exported as merchandise in any quantities that the trade of the Straits Settlements with foreign countries might require. To allay possible apprehension, however, it might be well to provide when the general import of Mexican and British dollars is prohibited that such dollars might be imported for purposes of reexport, with the sanction in each case of the Straits government and on such conditions as that government might prescribe.

64. A large amount of subsidiary silver coins has been issued in the Straits, and a portion of it, approximately estimated by the colonial treasurer at 300,000 dollars, is in circulation outside the Straits Settlements, the Federated Malay States, and Johore. Some, if not all, of these coins will be returned to the Straits Settlements when a gold standard is established. But we do not anticipate any serious trouble from this cause. If they are returned and put into circulation in such quantities as do not cause the subsidiary coinage to fall below its face value, no harm will be done, and if the subsidiary coin falls below its face value the tendency of such coin to return would be checked. Under the most unfavorable circumstances the difficulty could be met by the Straits government withdrawing a portion of the subsidiary coins.

65. Before closing this report we desire to express our high appreciation of the able and willing assistance which the secretary, Mr. A. E. Collins, has rendered throughout the inquiry.

D. BARBOUR.  
WM. ADAMSON.  
GEORGE W. JOHNSON.  
W. BLAIN.

A. E. COLLINS, *Secretary*.  
March 17, 1903.

## II.—ORDER ISSUED BY THE GOVERNMENT.

## STRAITS SETTLEMENTS.

*The Straits Settlements (coinage) order, 1903.*

At the Court at Buckingham Palace; the 25th day of June, 1903.

Present: The King's Most Excellent Majesty in Council.

Whereas under the Straits Settlements act, 1866, and other powers enabling us in that behalf, we have power to make laws for the peace, order, and good government of our colony of the Straits Settlements (in this order referred to as "the colony");

And whereas by order in council dated the 2d day of February, 1895 (in this order referred to as "the order of 1895"), provision is made with respect to the currency of the colony, and it is expedient to make further provision with respect thereto;

Now, therefore, we, by and with the advice of our privy council, and by virtue of all powers vested in us in that behalf, do hereby ordain and enact as follows:

1. (a) A Straits Settlements dollar shall be coined under the direction of the master of our mint or at one of our mints in British India, and be of the metal, weight, and fineness specified in the schedule to this order, subject to the remedy therein specified.

(b) That dollar shall have for the obverse impression our effigy, consisting of head and bust, wearing the imperial crown and the robe of state, with the collar of the Garter and the badge of the Bath, and looking to the right, with the legend "Edward VII, King and Emperor," and for the reverse impression a scroll, the upper and lower quarters of which shall contain the Chinese characters for 'One Dollar,' while the corresponding Malay characters shall be contained in the quarters to the right and left. The words "Straits Settlements" shall be inscribed above, and the words "One Dollar" and the date below the scroll.

2. For the purpose of making the Straits Settlements dollar legal tender in the colony, the order of 1895 shall, as from such date as may be fixed by the governor of the colony by proclamation, be read and apply as if the schedule to this order were added to the second schedule to that order.

3. The governor of the colony may, by proclamation made with the consent of the secretary of state, substitute the schedule to this order for the first schedule to the order of 1895, and accordingly as from the date mentioned in the proclamation the order of 1895 shall be construed as if the standard coin were the coin described in the schedule to this order in substitution for the Mexican dollar described in the first schedule of that order, and as if the Mexican dollar as described in the first schedule to that order were comprised in the second schedule to that order.

4. The governor of the colony may, by proclamation made with the consent of the secretary of state, declare that any of the coins the descriptions of which for the time being form part of the second schedule to the order of 1895 shall cease to be legal tender in the colony, and so much of the order of 1895, or any order amending that order, as makes tender of payment in that coin legal tender shall, as from the date fixed in the proclamation, be repealed.

5. The interpretation act, 1889, shall apply for the purpose of the interpretation of this order as it applies for the purpose of the interpretation of an act of Parliament.

6. This order shall be read as one with the order of 1895, and may be cited as the Straits Settlements (coinage) order, 1903.

And the lords commissioners of our treasury and the Right Hon. Joseph Chamberlain, one of our principal secretaries of state, are to give the requisite directions herein accordingly.

A. W. FITZ ROY.

*Schedule.*

STRAITS SETTLEMENTS DOLLAR.

Coin.	Metal.	Millesimal fineness.	Standard weight.		Least current weight.	
			Grains.	Grams.	Grains.	Grams.
Straits Settlements dollar.....	Silver	900	416	26.957	411	26.633

The remedy allowances for the Straits Settlements dollar shall be as follows:

	Grains.	Grams.	Millesimal fineness.
Weight per piece.....	2	0.1296	0.002

*Ordinance No. XXIV of 1903.*

AN ORDINANCE to regulate the import and export of coin into and from the colony.

[SEPTEMBER 25, 1903.]

F. A. SWETTENHAM, [L. S.]

*Governor and Commander in Chief.*

Whereas it is advisable to adopt certain measures to regulate the import and export of coin into and from the colony;

It is hereby enacted by the governor of the Straits Settlements, with the advice and consent of the legislative council thereof, as follows:

1. This ordinance may be cited as "The coin import and export ordinance, 1903."

2. For the purposes of this ordinance the term "banker" shall mean any corporation carrying on the business of bankers or financial agents in the colony, and the term "money changer" shall mean a person who carries on the business of money changing as his chief business.

3. (a) Subject to the approval of a secretary of state it shall be lawful for the governor in council by order to prohibit the importation into the colony of such coins, whether legal tender within the colony or not, as are in such order specified.

(b) It shall be lawful for the governor in council, subject to the like approval, by order to prohibit the exportation from the colony of such coins being legal tender within the colony as are in such order specified.

(c) It shall be lawful for the governor in council by order to prohibit the circulation in the colony of such foreign coins not being legal tender within the colony as are in such order specified.

(d) It shall be lawful for the governor in council by order to exempt any country or state from the operation of any order prohibiting the

import into or export from the colony of such coin as are in such order specified.

4. Every such order may, subject to the like approval, be rescinded or varied in such manner as the governor in council may see fit.

5. Every such order shall be published in the Gazette and shall not come into force until so published.

6. (a) If any person, in contravention of any such order, import or export, or attempt to import or export, any coin in such order specified, to the amount of \$5 in nominal value or upward in the case of copper or bronze coin, or of \$25 in nominal value or upward in the case of silver coin, he shall be liable, on conviction before a bench court, to a fine not exceeding \$1,000, and any coin so imported or exported, or attempted to be imported or exported, in contravention of any such order, shall be forfeited.

(b) In any case in which it has been proved to the satisfaction of a court that coin has been exported in contravention of any such order as aforesaid it may impose, in addition to the fine authorized by this section, a further penalty not exceeding the amount or value of the coin so found to have been exported.

(c) The provisions of this section shall not apply to any coin imported or exported under a license in writing under the hand of the colonial secretary or of any officer appointed in that behalf by the governor. Every such license shall specify the terms on which such coin may be imported or exported, as the case may be.

(d) Any person importing or exporting coin under the provisions of any such license shall be bound to comply with the terms in such license specified, and any person importing or exporting coin in contravention of the terms of such license shall be liable on conviction before a bench court to a fine not exceeding \$1,000, and any coin imported or exported in contravention of the terms of such license shall be forfeited. The provision contained in subsection (b) of this section shall apply in the case of any coin exported in contravention of the terms of any such license.

(e) If any person shall in contravention of any such order circulate or attempt to circulate any coin in such order specified, he shall be liable on summary conviction to a fine not exceeding \$25, and the coin shall be forfeited.

(f) For the purposes of this section a person is not deemed to circulate coin who gives such coin to a banker or money changer in exchange for other coins or for notes.

(g) In this section the expression "person" includes any company or association or body of persons, whether incorporated or not.

7. Any coin the circulation of which in the colony is for the time being prohibited by any such order as aforesaid found within the colony otherwise than in the possession of a banker or money changer after the expiration of thirty days from the publication in the Gazette of such order may, if it amounts to the nominal value of \$5 or upward in the case of copper or bronze coin or \$25 or upward in the case of silver coin, be forfeited, and may be seized without warrant by any police officer and detained pending adjudication.

8. A justice of the peace, if satisfied by sworn information in writing that there is good cause to believe that any coin which has been imported, or is in the act of being imported or exported, in contravention of any such order as aforesaid, is likely to be found in any place to the nominal value of \$50 or upward, may, by warrant under

his hand, direct any public officer named or specified therein to enter such place and search the same and seize all coin or coins found therein the import or export of which is for the time being prohibited as aforesaid and detain the same pending adjudication.

9. Any person found offending against the provisions of this ordinance may be arrested by any police officer without warrant.

10. Forfeitures of coin may be declared under this ordinance—

(a) By the supreme court upon information filed by His Majesty's attorney-general under "the Crown suits ordinance, 1876;"

(b) By the convicting court in all cases where a person is convicted of an offense against the provisions of this ordinance in respect of such coin;

(c) By a police court where no person is convicted and the nominal value of the coin does not exceed \$500.

11. The court may direct any fine or portion of a fine imposed and levied under this ordinance to be paid to the informer.

12. "The foreign coin prohibition ordinance, No. 2, of 1891," is hereby repealed.

Passed this 25th day of September, 1903.

E. G. BROADRICK,  
*Acting Clerk of Councils.*

*Order in council under "the coin import and export ordinance, 1903."*

Order by his excellency the governor in council, under "the coin import and export ordinance, 1903."

Whereas by section 3 (4) of "the coin import and export ordinance, 1903," it is provided that it shall be lawful for the governor in council by order to exempt any country or state from the operation of any order prohibiting the import into or export from the colony of such coin as may in such order be specified;

And whereas by an order in council made on the 2d day of October, 1903, the importation into the colony of the British trade dollar and the Mexican dollar was prohibited from the 3d day of October, 1903;

And whereas by another order in council made on the 2d day of October, 1903, the exportation from the colony of the Straits Settlements dollar was prohibited from the 3d day of October, 1903:

Now, I, Sir Frank Athelstane Swettenham, knight commander of the most distinguished order of St. Michael and St. George, governor and commander in chief of the Straits Settlements, by virtue of the powers vested in me by the said ordinance, with the advice of the executive council, do hereby declare that the said orders in council shall not apply to the states of Perak, Selangor, Negri Sembilan, and Pahang, otherwise known as the Federated Malay States, and to the state and territory of Johore, but that the same are hereby exempted from the operation of the aforesaid orders.

E. G. BROADRICK,  
*Acting Clerk of Councils.*

COUNCIL CHAMBER,  
*Singapore, October 2, 1903.*

In the name of His Majesty King Edward the Seventh of that name, by the Grace of God of the United Kingdom of Great Britain and Ireland, and of the British Dominions beyond the Seas, Defender of the Faith, Emperor of India.

## PROCLAMATION.

By His Excellency Sir Frank Athelstane Swettenham, knight commander of the most distinguished Order of Saint Michael and Saint George, governor and commander in chief of the Straits Settlements.

F. A. SWETTENHAM, [L. S.]

*Governor and Commander in Chief.*

Whereas by order of Her late Majesty Queen Victoria in council dated the 2nd day of February, 1895 (hereinafter called "the order of 1895"), provision was made with respect to the currency of the colony;

And whereas by "the Straits Settlements coinage order 1903" it was, among other things, ordained and enacted that a Straits Settlements dollar should be coined and be of the metal weight and fineness specified in the schedule to that order, and that for the purpose of making the Straits Settlements dollar legal tender in the colony the order of 1895 should, from such a day as might be fixed by the governor of the colony by proclamation, be read and apply as if the schedule to the Straits Settlements order 1903 were added to the second schedule of the order of 1895.

Now, I, Sir Frank Athelstane Swettenham, knight commander of the most distinguished Order of Saint Michael and Saint George, governor and commander in chief of the Straits Settlements, in exercise of the power vested in me by the Straits Settlements coinage order 1903, and of every power enabling me in that behalf, do by this proclamation fix the 3rd day of October, 1903, as the date from which the order of 1895 shall be read and apply as if the schedule to the Straits Settlements (coinage) order 1903 were added to the second schedule of the order of 1895.

Given at Singapore this 2nd day of October, in the year of our Lord one thousand nine hundred and three.

By his excellency's command:

W. T. TAYLOR,  
*Colonial Secretary.*

GOD SAVE THE KING.

The schedule to the Straits Settlements coinage order 1903, above referred to.

*Straits Settlements dollar.*

Coin.	Metal.	Millesimal fineness.	Standard weight.		Least current weight.	
			Grains.	Grams.	Grains.	Grams.
Straits Settlements dollar .....	Silver ..	900	416	26.957	411	26.633

The remedy allowances for the Straits Settlements dollar shall be as follows:

	Grains.	Grams.	Millesimal fineness.
Weight per piece.....	2	0.1296	0.002

*Ordinance No. XIII of 1903.*

AN ORDINANCE to amend "The currency note ordinance 1899."

[JULY 3, 1903.]

F. A. SWETTENHAM, [L. S.]

*Governor and Commander in Chief.*

Whereas it is advisable to amend "The currency note ordinance 1899" and to provide for the reminting of the coin portion of the note guarantee fund:

It is hereby enacted by the governor of the Straits Settlements, with the advice and consent of the legislative council thereof, as follows:

1. This ordinance may be cited as "The currency note ordinance 1899 amendment ordinance 1903," and shall be read and construed as one with "The currency note ordinance 1899" (hereinafter called "the principal ordinance"). Any copy of the principal ordinance printed after the commencement of this ordinance shall be printed with the amendments, alterations, and additions required by this ordinance.

2. The following new section 7a is inserted after section 7 of the principal ordinance:

7a. (1) Notwithstanding anything in the last preceding section contained it shall be lawful for the commissions of currency, with the approval of a secretary of state, to use any part of the coin portion of the note guarantee fund for the purpose of having it reminted and coined into such coins as may be approved by His Majesty's Government as legal tender in the colony: *Provided always*, That where such approval has been given the commissioners of currency shall not be bound to sell any of the securities forming the investment portion of the fund by reason of the coin portion of the fund falling below the fixed proportion of the fund in consequence of the reminting of any part thereof.

(2) All coins the result of the reminting of any part of the coin portion of the fund shall, on being received from His Majesty's mint, be forthwith placed in the coin reserve for the ordinary purposes of the currency note issue: *Provided always*, That the commissioners may exchange them or any part of them for an equivalent value of other silver coins which for the time being are legal tender in the colony.

(3) The cost of such reminting as aforesaid and all charges in connection therewith, including any loss of silver caused by the said reminting, shall form part of the expenses of and incidental to the execution of this ordinance.

(4) Any difference in the way of loss between the nominal value of coin originally taken from the coin portion of the fund to be reminted as aforesaid and the nominal value of the new coins actually received back from His Majesty's mint shall forthwith be made good to the commissioners from the general revenue of the colony.

(5) In the event of the reminting of any part of the coin portion of

the fund as aforesaid the monthly abstracts published in the Gazette by the commissioners, in accordance with section 10 of the principal ordinance, shall include and show separately in the statement of the coin portion of the note guarantee fund the nominal value of the coin taken out to be reminted.

3. Section 10 of the principal ordinance is amended by substituting for the word "tenth," in the first line of subsection 4, the word "first."

Passed this 3d day of July, 1903.

A. W. S. O'SULLIVAN,  
*Clerk of Councils.*

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### III. A GOLD STANDARD FOR THE STRAITS SETTLEMENTS.

[London Statist, Saturday, October 3, 1903.]

A cable received late this evening informs us that the further import of silver dollars into the Straits Settlements is prohibited. This step is, of course, preliminary to placing the currency of the Straits Settlements upon a gold basis. For some months past large imports of British and Mexican dollars into the Straits have been made in anticipation of the fixing of the value of the dollar in the Straits Settlements at 2s. The result of these importations is that the quantity of dollars in Singapore at the present time is quite out of proportion to the needs of the country, and that there will be no necessity to purchase silver for the coinage of new dollars perhaps for some years. The further steps which the Straits government will take to make the gold standard effective are awaited with great interest. It is improbable, however, that the Straits government will act in any arbitrary manner toward those who had no option but to receive and to keep in their vaults the unduly large quantity of dollars sent into the country. It would possibly have been wiser of the government to have taken their present step several months ago, before so many dollars were sent into the country and deposited with the banks. But inasmuch as the government has hitherto taken no step to prevent the large importation of dollars, it is to be expected that they will take steps to ascertain the quantity of dollars in the country at the present time, and will agree to recoin these dollars into the new Straits dollar free of charge before they purchase bar silver for coinage.

## APPENDIX G.

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### I. REPORT OF THE INDIAN CURRENCY COMMITTEE, 1898.

INDIA OFFICE, *July 7, 1899.*

Right Hon. Lord GEORGE HAMILTON, M. P.,

*Secretary of State for India:*

1. In your letter of April 29, 1898, your lordship referred to us for consideration the proposals of the government of India for making effective the policy adopted by Her Majesty's Government in 1893 and initiated in June of that year by the closing of the Indian mints to what is known as the free coinage of silver. That policy had for its declared object the establishment of a gold standard in India; and in inviting us to consider whether this object could best be attained by the specific measures proposed by the government of India or otherwise, your lordship indicated the scope of our inquiry in the following words: "It will be the duty of the committee to deliberate and report to me upon these proposals and upon any other matter which they may regard as relevant thereto, including the monetary system now in force in India, and the probable effect of any proposed changes upon the internal trade and taxation of that country; and to submit any modifications of the proposals of the Indian government, or any suggestions of their own, which they may think advisable for the establishment of a satisfactory system of currency in India, and for securing, as far as is practicable, a stable exchange between that country and the United Kingdom."

2. For the purposes of our inquiry we have held 43 meetings and examined 49 witnesses. The notes of evidence, together with statistical tables and other important information bearing on the subject of inquiry, have already been communicated to your lordship; and we now proceed to report the conclusions which we have reached upon the questions referred to us.

#### *I. The monetary system of India.*

3. In order to explain the monetary system now in force in India, it is desirable to record certain salient facts of the history of Indian currency.

4. At the beginning of the present century no uniform measure of value existed in British India. Some parts of India (e. g., Madras) maintained a gold standard and currency; elsewhere, as in Bengal, a silver standard obtained, with gold coins in concurrent circulation; throughout India the coins, whether of gold or silver, differed in denomination and differed in intrinsic value even within the same district. Out of this confusion arose the demand for an uniform coinage, a demand to which the court of directors of the East India Company gave their approbation in the important dispatch on Indian currency

addressed by them to the governments of Bengal and Madras on April 25, 1806. It is important to observe that the directors, while "fully satisfied of the propriety of the silver rupee being the principal measure of value and the money of account," by no means desired to drive gold out of circulation. "It is not by any means our wish," they said, "to introduce a silver currency to the exclusion of the gold, where the latter is the general measure of value, any more than to force a gold coin where silver is the general measure of value." Nevertheless the first fruits of the policy of 1806 were seen in the substitution in 1818 of the silver rupee for the gold pagoda as the standard coin of the Madras Presidency, where gold coins had hitherto been the principal currency and money of account. In 1835, when the present silver rupee was formally established as the standard coin of the whole of British India, it was enacted that "no gold coin shall henceforward be a legal tender of payment in any of the territories of the East India Company."

5. But, though gold had ceased to be a legal tender in India as between private individuals, the coining of gold mohurs (or "15-rupee pieces") was authorized by the act of 1835, and a proclamation of January 13, 1841, authorized officers in charge of public treasuries "freely to receive these coins at the rates, until further orders, respectively denoted by the denomination of the pieces." As the gold mohur and the silver rupee were of identical weight and fineness, this proclamation represented a ratio of 15 to 1 between gold and silver. In 1852 it was held by the directors of the East India Company, on representations from the government of India, that the effect of this proclamation "has been and is likely to be still more embarrassing" to the government of India. "The extensive discoveries of gold in Australia having had the effect of diminishing its value relatively to silver, holders of gold coin have naturally availed themselves of the opportunity of obtaining at the government treasuries a larger price in silver than they could obtain in the market." Consequently, on December 25, 1852, there was issued a notification withdrawing the above provision of 1841 and declaring that on and after January 1, 1853, "no gold coin will be received on account of payments due, or in any way to be made, to the government in any public treasury within the territories of the East India Company."

6. In 1864 the Bombay Association (representing the native mercantile community of Bombay) and the chambers of commerce of Bengal, Bombay, and Madras having memorialized the government of India for a gold currency, the government proposed "that sovereigns and half-sovereigns, according to the British and Australian standard, coined at any properly authorized royal mint in England, Australia, or India, should be made legal tender throughout the British dominions in India, at the rate of 1 sovereign for 10 rupees; and that the government currency notes should be exchangeable either for rupees or for sovereigns at the rate of a sovereign for 10 rupees, but that they should not be exchangeable for bullion." The Imperial Government, while unwilling to make the sovereign a legal tender, saw "no objection to reverting to a state of matters which prevailed in India for many years, namely, that gold coin should be received into the public treasuries at a rate to be fixed by government and publicly announced by proclamation." It was considered that this experimental measure "will, as far as it goes, facilitate the use of the sovereign and half-sovereign in all parts of India; it will pave the way for the use of a gold coinage in whatever shape it may ultimately be found advisable to intro-

duce it, and at the same time it establishes a preference in favor of the sovereign." Accordingly, on November 23, 1864, a notification was issued that sovereigns and half-sovereigns should, until further notice, be received as equivalent to 10 rupees and 5 rupees, respectively, in payment of sums due to government. In the following March, the directors of the Bank of Bengal urged that, "in view of the continued influx of sovereigns," the time had come when British gold might, "with safety and advantage, be declared legal tender at the respective rates of 10 and 5 rupees," and the government of India again pressed their original proposal on the Imperial Government. The secretary of state replied on May 17, 1865, that the time did not appear to have arrived for taking any further step, nor did he see that any practical advantage would attend the proposal to admit British gold to legal tender in India. On October 28, 1868, the government of India raised the rate for the receipt of sovereigns and half-sovereigns at the public treasuries from 10 and 5 rupees to  $10\frac{1}{4}$  and  $5\frac{1}{8}$  rupees, respectively.

7. In 1876, after the rupee had temporarily fallen in exchange to  $18\frac{1}{2}$ d., the Bengal Chamber of Commerce and the Calcutta Trades' Association urged the temporary suspension of the compulsory coinage of silver by the Indian mints. The government of India decided that "up to the present there is no sufficient ground for interfering with the standard of value."

8. In 1878, however, the government of India expressed a different opinion, being "led to the general conclusion that it will be practicable, without present injury to the community as a whole, or risk of future difficulties, to adopt a gold standard while retaining the present silver currency of India, and that we may thereby in the future fully protect ourselves from the very real and serious dangers impending over us so long as the present system is maintained." Aiming at the eventual adoption of the British standard, and the extension to India of the use of British gold coins, the government proposed to proceed at the outset as follows: "We first take power to receive British or British Indian gold coin in payment for any demands of the government, at rates to be fixed from time to time by the government, till the exchange" (about 1s. 7d. in 1878) "has settled itself sufficiently to enable us to fix the rupee value in relation to the pound sterling permanently at 2s. Simultaneously with this the seigniorage on the coinage of silver would be raised to such a rate as would virtually make the cost of a rupee—to persons importing bullion—equal in amount to the value given to the rupee in comparison with the gold coins above spoken of. We should thus obtain a self-acting system under which silver would be admitted for coinage at the fixed gold rate as the wants of the country required; while a certain limited scope would be given for the introduction and use of gold coin, so far as it was found convenient or profitable." The above proposals of 1878 were referred to a departmental committee, who, on April 20, 1879, briefly reported that they were "unanimously of opinion that they can not recommend them for the sanction of Her Majesty's Government." A discussion of some of the reasons which appear to have influenced the committee of 1879 in urging the rejection of the proposals referred to them will be found in the evidence given before us by Sir Robert Giffen, who was a member of that committee. (See questions 10025–10048.)

9. Between 1878 and 1892 the continued fall in the gold price of silver caused repeated embarrassment to the government of India; but

the main object of such attempts as were made by that government to deal with the subject during the period in question was not to effect a change of standard in India, but to facilitate an international agreement which might cause a rise in the gold price of silver, and thus diminish the inconvenience resulting from the retention of a silver standard in India.

10. In 1881 Indian delegates were sent to the monetary conference at Paris, with instructions that "while the secretary of state in council is unwilling to encourage an expectation of any material change at present in the monetary policy of India, he would be ready to consider any measures \* \* \* calculated to promote the reestablishment of the value of silver." In 1886, shortly before the appointment of the royal commission on gold and silver, the government of India expressed the opinion that "the interests of British India imperatively demand that a determined effort should be made to settle the silver question by international agreement;" and in 1892 Indian representatives were sent to the International Monetary Conference at Brussels, which was convened for the consideration of measures for the increased use of silver as currency.

11. In 1892, inasmuch as it was foreseen that the international conference might fail to secure the objects for which it was to be called together, the idea of changing the standard of value in India from silver to gold had been once more brought into prominence by the action of the representatives of the mercantile community of Calcutta. On February 18, 1892, when the international conference was in prospect, the Bengal Chamber of Commerce represented that it was "impossible for men of business to feel any confidence in the future value of the rupee, and they believe that such a state of things restricts the investment of capital in this country and seriously hampers legitimate enterprise." If success could not be secured by international agreement, the chamber saw nothing "but the prospect of endless fluctuations in the relative values of silver and gold, attended with a fall in the value of silver of indefinite amount; and the committee [of the chamber of commerce] think that in such case the government of India should take steps to have the question of the advisability of introducing a gold standard into India carefully and seriously considered by competent authorities." In their dispatch of March 23, 1892, the government of India, while urging the secretary of state to lend his support to any proposals that might be made by the United States of America, or by any other country, for the settlement of the silver question by international agreement, "called attention to the probability that, failing an international agreement, the United States would be forced to stop the purchase and coinage of silver; and they requested the Imperial Government, in view of this contingency, to take forthwith into consideration whether any, and, if so, what measures could be adopted for the protection of Indian interests.

On June 21, 1892, the government of India proceeded to record their "deliberate opinion that, if it becomes evident that the international conference is unlikely to arrive at a satisfactory conclusion, and if a direct agreement between India and the United States is found to be unattainable, the government of India should at once close its mints to the free coinage of silver and make arrangements for the introduction of a gold standard." In a telegram of January 22, 1893, the government of India further explained their proposals, as follows: "Our proposal is that we shall take power to issue a

notification declaring that English gold coins shall be legal tender in India at a rate of not less than  $13\frac{1}{2}$  rupees for one sovereign [i. e., 18d. per rupee]. \* \* \* An interval of time, of which the length can not be determined beforehand, should, we think, elapse between the mints being closed and any attempt being made to coin gold in India. The power to admit sovereigns as legal tender might be of use as a measure ad interim, but it need not be put into force except in case of necessity."

12. The proposals of the government of India were referred on October 21, 1892, by the Earl of Kimberley, then secretary of state for India, to a committee consisting of the late Lord Herschell, Lords Farrer and Welby, Mr. Leonard Courtney, Sir Arthur Godley, Lieut. Gen. Sir Richard Strachey, and the late Mr. Bertram Currie, and on May 31, 1893 (the Brussels conference having meanwhile adjourned without arriving at any agreement), the committee reported as follows:

"While conscious of the gravity of the suggestion, we can not, in view of the serious evils with which the government of India may at any time be confronted if matters are left as they are, advise your lordship to overrule the proposals for the closing of the mints and the adoption of a gold standard, which that government, with their responsibility and deep interest in the success of the measures suggested, have submitted to you.

"But we consider that the following modifications of these proposals are advisable: The closing of the mints against the free coinage of silver should be accompanied by an announcement that, though closed to the public, they will be used by government for the coinage of rupees in exchange for gold at a ratio to be then fixed, say 1s. 4d. per rupee; and that at the government treasuries gold will be received in satisfaction of public dues at the same ratio.

"We do not feel ourselves able to indicate any special time or contingency when action should be taken. It has been seen that the difficulties to be dealt with have become continually greater; that a deficit has been already created, and an increase of that deficit is threatened; that there are at the present moment peculiar grounds for apprehension, and that the apprehended dangers may become real with little notice. It may also happen that, if action is delayed until these are realized, and if no step is taken by the Indian government to anticipate them, the difficulty of acting with effect will be made greater by the delay. It is obvious that nothing should be done prematurely or without full deliberation; but, having in view these considerations, we think that it should be in the discretion of the government of India, with the approval of the secretary of state in council, to take the requisite steps, if and when it appears to them and to him necessary to do so."

13. The committee's recommendations having been approved by the Imperial and Indian governments, there was passed on June 26, 1893, the act, No. VIII of 1893, "to amend the Indian coinage act, 1870, and the Indian paper currency act, 1882." This act provided for the closing of the Indian mints to the "free coinage" of both gold and silver—government retaining the power to coin silver rupees on its own account. By notifications (Nos. 2662-4) of June 26, 1893, arrangements were made (i) for the receipt of gold at the Indian mints in exchange for rupees at a rate of 16d. per rupee, (ii) for the receipt of sovereigns and half sovereigns in payment of sums due to government at the rate of 15 rupees for a sovereign, and (iii) for the issue of

currency notes to the comptroller-general in exchange either for British gold at the above rates or for gold bullion at a corresponding rate.

14. In 1897 the secretary of state for India referred to the government of India the question whether, if the mints of France and the United States of America were opened to the free coinage of silver as well as gold at a ratio of  $15\frac{1}{2}$  to 1, the government of India would undertake to reopen concurrently the Indian mints to the free coinage of silver and to repeal the above notifications of 1893. In reply the government of India expressed their "unanimous and decided opinion" that it would be "most unwise to reopen the mints as part of the proposed arrangements, especially at a time when we are to all appearance approaching the attainment of stability in exchange by the operation of our own isolated and independent action." This conclusion was indorsed by the secretary of state for India in council and by the Imperial Government.

15. In January, 1898, "in order to afford a means of relief to the severe stringency" then prevailing in the Indian money markets, an act was passed (No. II of 1898) empowering the government of India to direct, by order notified in the Gazette of India, the issue of currency notes in India on the security of gold received in England by the secretary of state at the rate and subject to the conditions to be fixed by such order. Under this act, which was to remain in force for six months, a notification was published by the government of India on January 21, 1898, announcing that notes would be issued in exchange for gold held by the secretary of state for India at the rate of 1 government rupee for 7.53344 grains of fine gold, with the addition of such further quantity of fine gold as the secretary of state should from time to time determine to be "sufficient to cover all costs and charges incidental to the transmission of gold to India." Under this notification the secretary of state in council gave notice of his readiness "to sell until further notice telegraphic transfers on Calcutta, Madras, and Bombay at a rate not exceeding 1s.  $4\frac{5}{8}$ d. for the rupee." This act was extended for a further period of two years by the amending act, No. VIII of 1898. No gold has been tendered under the provisions of these acts.

16. It will thus be observed that at the present time gold is not a legal tender in India, though the government will receive it in the payment of public dues; that the rupee remains by law the only coin in which other than small payments can be made; that there is no legal relation between rupees and gold, but that the Indian government has declared (until further notice) a rate at which rupees can be purchased for gold coin or bullion, such rate serving to determine the maximum limit to which the sterling exchange can rise under present arrangements.

## II.—*A silver standard.*

17. Having thus set forth the origin and present position of the monetary system of India, we proceed to consider the question whether, in the light of the six years' experience gained since 1893, it is desirable to reverse the policy initiated in that year and to reopen the Indian mints to the unrestricted coinage of silver. Such a step has not been advocated in the memorials which we have received from the chambers of commerce of Bengal, Bombay, Madras, and Karachi, nor is there unanimity among those who do advocate so important a

change of policy. Apart altogether from the fact disclosed by the evidence that some who were opposed to the closing in 1893 now advocate a gold standard, there is a clearly marked division between those who would reopen the mints to silver forthwith and those who, while contemplating such a course eventually, hesitate to reopen the mints immediately. The latter class may be further subdivided into those who propose to leave the time and conditions of such reopening to be hereafter determined and those who suggest immediate steps toward a gradual reopening. With regard to the last suggestion, which aims at mitigating what its advocates have represented to us as the prospects of disaster to merchants and traders and of grave difficulty to the government of India from the sudden drop in exchange to the bullion value of the rupee (about  $10\frac{1}{2}$ d. at the present time), no scheme has been submitted to us which appears likely to attain the object in view. In our opinion, any measures for gradual reopening would be so fully and immediately discounted as to defeat the precise objects for which they are suggested. It is obvious, moreover, that the certain prospect of a heavy fall in the exchange would at once drive capital from India.

18. As regards the policy which, while declaring in favor of open mints, would leave it to future undefined circumstances to indicate when the step should be taken, this (so far as it is not dictated by the desire for an international agreement, to which we refer presently) recognizes that for the present the benefits anticipated from a return to a silver standard do not counterbalance the evils which would result from abandoning the status quo. The hope apparently is that from a rise in the gold price of silver or from a fall in the sterling exchange of the rupee or from a combination of these or other undefined circumstances it may hereafter become possible to revert to a silver standard without causing a sudden and heavy fall in the exchange value of the rupee. Meantime it is proposed that the present arrangements should continue indefinitely in spite of the disabilities considered to be thereby imposed on what are regarded as the true interests of India. This suggestion could, of course, only be entertained by the government of India if it were definitely decided in principle to reopen the Indian mints to silver, and its adoption or rejection must depend on the answer to the broad question with which we are about to deal, viz, is it desirable for India to revert to silver monometallism?

19. The policy of reopening the mints at some future date to silver stands on a different footing when urged by those who look forward to an international agreement and consider that there is reasonable hope of such an agreement within a limited period. Such persons, unlike those above referred to, aim directly at a stable exchange between India and the United Kingdom and advocate delay only in order that an international agreement may be reached. With regard to this anticipation, we confine ourselves here to stating that the negotiations of 1897 with France and the United States of America having proved fruitless, no fresh proposals, so far as we are aware, have been or are being made by any of the governments concerned.

20. The main proposal that the Indian mints should be reopened forthwith to the unrestricted coinage of silver has been supported by witnesses on various considerations, one of which is that "a low rupee and a low exchange" encourage the export trade on which India's prosperity depends, and that an "arbitrarily enhanced" rupee discourages exports. It is urged that encouragement would best be

given to exports by a reversion to the system of open mints, so that the rupee in exchange would again coincide with the gold price of silver, with the result that an end would be put to the unfair advantage which the present system is held to give to the silver-using competitors of India, and which, according to this view, the effective establishment of a gold standard would perpetuate. Great stress is laid by the advocates of open mints upon the burden imposed on the export trade of India by stringency in the Indian money market, which they attribute to the closing of the mints and represent as likely to increase under the present system of closed mints. It is admitted generally by the advocates of open mints that the benefits which would accrue to India from restoring the silver standard would probably lead to difficulties on the part of the Indian government; but it is urged that these difficulties would be temporary only, and that they could be met either by borrowing or by increased taxation, including import and export duties.

21. Dealing first with the question of discount rates, it will be sufficient to remark that the anticipations of increasing stringency have not been verified during the recent busy season. Whereas the minimum rate of the Bank of Bengal was 10 per cent on January 6, 1898, rising on February 24 to 12 per cent (at which figure it stood until April 27, 1898), and did not fall below 10 per cent until June 16, 1898, the rate for the busy season of 1898-99 has never exceeded 7 per cent, and this though the total volume of India's sea-borne foreign trade exceeded Rx. 210,000,000 in 1898-99, as against (under) Rx. 199,000,000 in 1897-98.

22. While it may be questioned whether banking arrangements in India might not with advantage be strengthened and adjusted to the growing requirements of Indian trade, we can not doubt that one of the main causes of the stringency of 1897-98 was the reversal (necessitated by the exceptional circumstances of India at the time) of the relations of the government of India and the money market in the autumn of 1897. In ordinary years the government is able, through the sale of council bills and telegraphic transfers, to place large sums at the disposal of the money market throughout the autumn and winter. Thus, during the last four months of 1894 the bills and transfers sold by the secretary of state amounted to Rx. 8,052,000; in 1895, for the same period of the year, the amount was Rx. 9,888,000; in 1896 the amount was Rx. 6,056,900. But in 1897, owing to the depletion of the balances of the government of India, brought about by expenditure on famine relief and military operations and by failing revenue, the secretary of state was unable, from September 1 to November 15, to offer bills or transfers for sale, and was compelled to purchase drafts on India for Rx. 1,000,000. Thus, during the last four months of 1897 the amount placed at the disposal of the Indian money market in the presidency towns in consequence of the remittance transactions of the government was only Rx. 332,700, or Rx. 5,724,200 less than the year before.

23. It must not be forgotten that high discount rates were not unknown in India under the system of open mints. For example, the bank rate reached 12 per cent in April, 1890, in which year the rate did not fall below 10 per cent from February 10 to April 24, while in 1889, 12 per cent was quoted continuously from February 21 to March 28, the rate not falling below 10 per cent from January 17 to April 11 of that year.

24. We come next to the suggestion that the present system of closed mints handicaps India in her industrial competition with countries on a silver standard.

Of such countries China may be taken as the type, and it is said that the greater fall in, say, the London exchange with China as compared with the fall in the exchange with India stimulates exports from China, which compete with exports from India, and also stimulates native production in China to the disadvantage of Indian imports into China, and that in this way India is placed at a disadvantage, and that the disadvantage to India is increased when an actual rise occurs in the Indian exchange.

It is explained that a fall in the price of silver is necessarily accompanied by a fall in the China exchange; that the producer in China consequently receives a higher silver price in respect of the same gold price, while wages and the other factors in the cost of production do not increase in the same proportion; that production in China becomes more profitable, and is therefore stimulated; that, on the other hand, if the Indian exchange does not fall to an equal degree, the Indian producer does not receive this stimulus, and if the Indian exchange rises, the producer in that country receives a lower rupee price, while wages and the other factors in the cost of production do not proportionately diminish; that the Indian producer does not receive the same profit as before, and that production is therefore checked.

This aspect of the question was considered by Lord Herschell's committee, and the conclusions at which they arrived will be found in paragraph 27 of their report. They expressed the opinion that, even if we assume the argument as to a stimulus or check to production to be sound, the effect of each successive fall in exchange must be transitory, and could only continue until circumstances have brought about the inevitable adjustment. In this opinion we concur, and evidence has been laid before us which shows that prices and wages have risen in China since silver has fallen in price and the local copper currency has appreciated in terms of silver.

25. Lord Herschell's committee examined the statistics of Indian exports for a series of years, and came to the conclusion that "although one may be inclined, regarding the matter theoretically, to accept the proposition that the suggested stimulus would be the result of a falling exchange, an examination of the statistics of exported produce" [from India] "does not appear to afford any substantial foundation for the view that in practice this stimulus, assuming it to have existed, has had any prevailing effect on the course of trade; on the contrary, the progress of the export trade has been less with a rapidly falling than with a steady exchange."

We need not quote the statistics of the export trade to which that committee called attention, but we desire to state that we have been unable to find any statistical support for the theory that exports are largely and permanently stimulated by a depreciation of the standard of value, resulting in a fall in the exchange.

The statistics of the Indian export trade since the mints were closed to silver might have been expected to throw light on this portion of the question, but their value for this purpose is much diminished by the special disturbing influences to which that trade has been subjected during the last six years.

The closing of the Indian mints, the cessation of the purchases of silver by the United States of America, the consequent fall in the price of silver, and the apprehension to which it gave rise undoubtedly

disturbed the course of trade for a time, and when recovery to more normal conditions might have been expected, India was affected by war, famine, and plague, and its finances were so seriously embarrassed the drawings of the secretary of state were largely reduced, and loans of unusual magnitude were raised in London on account of the government of India. The exports from India were largely reduced in 1897-98. In the following year (1898-99) there was a marked recovery; the drawings by the secretary of state were unusually large, and a substantial sum in gold was brought to the Indian treasury.

26. For convenience of reference we give in this place the figures of gross exports from India in the twelve years from 1887-88 to 1898-99.

Year.	Exchange.	Silver, per ounce.	Exports of merchan- dise.	Year.	Exchange.	Silver, per ounce.	Exports of merchan- dise.
	<i>d.</i>	<i>d.</i>	<i>Rx.</i>		<i>d.</i>	<i>d.</i>	<i>Rx.</i>
1887-88 .....	16. 898	44 $\frac{1}{2}$	90, 471, 000	1893-94 .....	14. 547	35 $\frac{5}{8}$	106, 448, 000
1888-89 .....	16. 379	42 $\frac{1}{2}$	96, 978, 000	1894-95 .....	13. 101	28 $\frac{1}{2}$	108, 815, 000
1889-90 .....	16. 566	42 $\frac{1}{2}$	103, 397, 000	1895-96 .....	13. 638	29 $\frac{1}{2}$	114, 263, 000
1890-91 .....	18. 089	47 $\frac{1}{2}$	100, 136, 000	1896-97 <sup>a</sup> .....	14. 451	30 $\frac{1}{2}$	103, 914, 000
1891-92 .....	16. 733	45 $\frac{1}{2}$	108, 036, 000	1897-98 <sup>a</sup> .....	15. 354	27 $\frac{3}{8}$	97, 537, 000
1892-93 .....	14. 985	39 $\frac{1}{2}$	106, 536, 000	1898-99 .....	15. 978	26 $\frac{1}{2}$	112, 723, 000

<sup>a</sup> Famine years.

For the reasons we have stated in the preceding paragraph, we hesitate to draw any positive conclusion from these figures, but they afford no support to the theory that large exports are incompatible with a rise in the rate of exchange.

27. In this connection we wish specially to notice the very important tea industry of India and Ceylon, which certain witnesses stated to be seriously threatened by competition with China tea produced in a country on a silver basis. We recognize the large capital invested in the tea estates, and that their maintenance is of vital importance to the many Europeans and natives employed therein. It was represented to us that the profits of the producers of Indian and Ceylon tea had been affected by the recent rise in the Indian exchange; that although this diminution of profit could not immediately affect the total export of tea from gardens already in existence, or the increase from gardens in process of formation and about to come into bearing, it would tend to diminish the extension of cultivation, and thus prevent the export of tea from increasing to the extent to which it would otherwise have done.

We do not doubt that the recent rise in the Indian exchange temporarily diminished the profits of the producers of tea, just as the previous fall had temporarily increased them; but, as we have already said, we see no reason to suppose that the strength of the competition of China tea will be permanently increased by the fact that China is on a silver basis. So far there is no evidence to show that the exports of China tea have appreciably increased, and there is evidence to show that the rise in Chinese wages and general prices has at least begun to take effect.

It appears to us that the permanent interests of the tea gardens of Ceylon and India will be promoted rather than injured when their operations are carried on under the same standard of value as exists in the countries to which their produce is exported.

We find that this question of the competition of China with Indian tea was specially considered by the government of India in 1892,

before the Indian mints were closed to silver, in connection with a memorial on the subject from the Darjiling Planters' Association. The views of the government of India on the subject are contained in a letter to the honorary secretary to the association, dated October 12, 1892, and printed at pages 176-177 of the minutes of evidence before Lord Herschell's committee. The following extract from that letter contains a summary of the views which the government of India expressed at that time:

"To sum up, the government of India are of opinion—

"(1) That a country, as a whole, makes no gain in its international trade by a depreciation of its standard, since the extra price received for its exports is balanced by the extra price paid for its imports.

"(2) That the producer of an article of export may make a temporary and unfair gain from depreciation of the standard, at the expense of his employees and of other persons to whom he makes fixed payments.

"(3) But that this gain, while not permanent, is counterbalanced by a tendency to overproduction and consequent reaction and depression, by a liability to sudden falls in price as well as to rises, and by the check to the general increase of international trade which necessarily results from the want of a common standard of value between countries which have intimate commercial and financial relations."

We are unable to find that anything has occurred since the closing of the Indian mints to silver to throw doubt on the soundness of the views expressed in 1892 by the government of India.

28. As regards the argument that a low exchange stimulates exports and discourages imports, it is further to be observed that whatever advantages attach to a low exchange should be increased, by parity of reasoning, by a still lower exchange; and it has accordingly been represented to us that it is a falling exchange which stimulates exports. But, as regards the ultimate limits of beneficial fall, we have failed to discover at what precise point, if at all, the advocates of this view would hold that the alleged advantages of a falling exchange cease.

29. To reopen the Indian mints to silver without an international agreement would necessarily result, according to all past experience, in renewed instability of the exchanges between India and gold-standard countries. It is generally recognized that fluctuations of exchange constitute an obstacle to international trade, the true interests of which are to be sought in a stable monetary par of exchange. Since over four-fifths of India's sea-borne foreign trade is with gold-standard countries, it follows that the balance of advantage is heavily in favor of stability of exchange with gold-standard countries; and accordingly, considered by itself, the instability of exchange which must be anticipated from reopening the Indian mints to silver is a powerful argument against taking the step.

30. So far we have considered the matter solely from the standpoint of trade, and the above remarks will have indicated our conclusion that, even apart from considerations primarily affecting the government of India, it is not in the permanent interests of India that her foreign commerce, over 80 per cent of which is with gold-standard countries, should be hampered by the restoration of silver monometallism. This conclusion is strengthened by considerations affecting the government of India, which is the representative of the general interests of India. Apart from certain large payments in India (such as the pay of British soldiers serving in that country), the rupee total of which payments is regulated by the sterling exchange, the secretary of state for India has now, under normal conditions, to meet obli-

gations in England amounting annually to between £17,000,000 and £18,000,000.

In order to make these payments the government of India raises taxation in rupees, and would therefore be seriously affected by the reopening of the mints to silver. It is impossible to foretell what would be the actual effects of this step on exchange. But a drop to 1s. (which is about 2d. above the present bullion value of the rupee) would, on a moderate estimate, increase the necessities of the government of India by at least Rx. 10,000,000 gross, against which might be set some possible increase of revenue, leaving an increase of at least Rx. 7,000,000. This sum exceeds the total excise revenue of India by Rx. 1,500,000, exceeds the total stamp revenue by Rx. 2,160,000, and is nearly four times the total yield of the Indian income tax. An increase of expenditure to this extent would not only absorb the whole of the present surplus—which is the result of an increase in taxation imposed since 1886 principally to meet exchange difficulties—but would also necessitate further taxation. As regards an increase of taxation, Lord Northbrook has expressed the opinion (Q. 8407) that, while it would be possible, “it would be in the highest degree unwise, both in respect of the trade of India, the welfare of the people of India, and I will go so far as to say the security of the Indian Empire.” Concurring as we do in this opinion, which has been supported by the independent testimony of other distinguished administrators of India, we must add that the government of India would not be justified in assuming that, with the mints reopened to silver, the fall of the exchange to a shilling is the greatest fall which they might be called upon to face either immediately or at a future time.

31. It has been urged before us that so long as the rupee is current at a value considerably above that of the silver which it contains, there is serious risk of counterfeit coins in silver of standard fineness being manufactured and put into circulation. This subject has engaged the attention of the government of India, and in a dispatch dated January 12, 1899 (more than five and a half years after the closing of the mints), they express the opinion that there is no evidence of such counterfeiting on any appreciable scale. We see no reason to doubt the correctness of that opinion, nor does the experience of other countries in which silver coins circulate at an enhanced value suggest any other conclusion.

32. In view of the considerations which we have stated, we concur with the government of India in their decision “not to revert to the silver standard.”

### III.—*The principle of a gold standard.*

33. At the present time the practical alternative to silver monometallism is a gold standard; that is to say, gold as the measure of value in India, either with a gold currency or with a gold reserve.

34. We have already referred to the fact that over four-fifths of the foreign trade of India is with gold-standard countries, and that for this reason it is desirable that India should have the same measure of value as those countries. Regard being had to the supremacy of gold in international commerce, the change to a gold basis has been represented to us by Professor Marshall (Q. 11815) as “like a movement toward bringing the railway gauge on the side branches of the world’s railways into unison with the main lines.” This consideration directly relates to facilitating interchange of commodities.

35. A further and certainly not a less important consideration for a country like India is that an established gold standard is the simplest and most effective means of attracting capital. The need of India for foreign capital is indisputable, and this need is partly of a temporary and partly of a permanent character. For climatic reasons India is essentially a country of seasonal trade. She has a busy season and a dull season, though the tendency of late years has been to diminish the disparity and to exhibit approximation to a more uniform average within each year. From this seasonal character it follows that the demand for money is much greater for one part of the year than for the other. In the busy season there is a brisk demand for temporary advances to move the crops. In the dull season money is in little demand. The distinction is shown in an extreme form by the facts of the money market in 1897-98, when there was a seasonal variation in discount rates of no less than 7 per cent, and the fluctuations were even greater in 1889 and 1890. In order to diminish the risk to Indian commerce of a recurrence of such stringency, and in order to reduce the average rate charged for the local use of money, the sound policy is to attract capital to India from the gold-standard countries which have capital to lend, and this can best be achieved by a gold standard and a stable exchange. Moreover, it is in many ways as important that money should be able to flow out of a country without depreciation, when it is no longer in relative demand there, as that it should flow in when required. A gold standard is, in our opinion, the only means by which, under present conditions, these benefits can be secured.

36. The natural resources of India are beyond question, as also is the need for their development. In order to develop and reap the benefit of her resources, India requires, and must long continue to require, foreign capital. Such foreign capital can only be drawn from the gold-standard countries, and the capital of these countries can only be attracted by a moderate rate of interest or profit on condition that the investor is satisfied that there is not likely to be a fall in the sterling exchange. We have had the valuable testimony of Mr. Alfred de Rothschild (Q. 11853) that British capital would be at once forthcoming if the British investor knew that there was a fixed rate of exchange between the two countries. We attach great importance to this argument in favor of a gold standard for India.

37. It seems unnecessary to discuss the further considerations which point to the benefits to India of a gold standard. We desire, however, to remark that the effective establishment of such a standard in India would not preclude India hereafter from considering responsible proposals for an international agreement, if circumstances should arise to render such negotiations practicable.

38. Before discussing the various further measures which have been proposed for establishing a gold standard in India, we submit to your lordship the following considerations relating to the existing currency arrangements. Inasmuch as for practical purposes the sterling exchange furnishes a broad test of a country's claim to be on a gold standard, and inasmuch as the Indian exchange since January, 1898, has been stable (within what may be regarded as "specie points") at 16d. per rupee, it has been represented to us that the gold standard may be regarded as having been reached in India already. According to this view the closing of the Indian mints to silver and the undertaking by the government to give rupees for gold has already had the result of making gold practically a legal tender in India, pres-

ent arrangements being sufficient to supplement automatically from time to time the stock of currency.

39. Judged solely by existing facts, this contention can not be disputed in its essentials. Events have proved more favorable than was anticipated by the government of India when, in their dispatch of March 3, 1898, they represented that it was not very probably that gold would be presented in the early future. And, although they expressed the opinion that it was "in any case extremely unlikely to be presented in such quantity as to lead automatically to an accumulation of gold sufficient for a reserve," statistics indicate that a considerable accumulation has already been effected. On March 31, 1899, the reserve of the paper currency department of the government of India included gold to the amount of over £2,000,000. At the present time the amount of gold is £2,378,609.

40. While this substantial addition in gold was being made to the Indian currency, the government of India was able, within the year to March 31, 1899, to remit by the sale of council bills a sum of £18,712,454, which is considerably more than the average sterling requirements of the secretary of state, and was £2,712,454 in excess of the original estimate of his sterling drawings. This has been accomplished without lowering the average price realized by the sale of council bills below 15.978d. (or as nearly as possible the limit fixed in 1893), and stringency has not recurred in the Indian money market. Automatically, therefore, existing currency arrangements sufficed not only to maintain, without monetary stringency, a steady gold standard in 1898-99, but also to initiate a gold reserve in India to serve as a bulwark for the maintenance of the gold standard in future years.

41. If it has been possible to secure these results in the past in the face of distrust, it may be argued that even greater success may be expected in the future with the growth of confidence. We are by no means prepared to suggest that this may not prove the case, or that the mere continuance of the status quo may not prove adequate by itself gradually to supplement the currency of India with a margin of gold sufficient to tide her over adverse years hereafter. But the same considerations which tell in favor of maintaining the status quo for the present, equally tell against its maintenance permanently. In practice it would be impossible for the government of India to receive gold beyond a certain point into their treasuries or their paper currency reserve, unless they were also empowered to pay that gold out again in cashing their notes or meeting other liabilities in India. But this would mean declaring gold a legal tender at a fixed rate, and thereby superseding the purely provisional machinery of the existing system. According to this argument, therefore, maintenance of the existing system comes to mean little more than postponing further action for a time. The interval would be long or short, according to the slow or rapid accumulation of gold; but in no case could the provisional arrangements now in force constitute—nor indeed, were they ever intended to constitute—a permanent settlement of the problem.

The practical question is, therefore, narrowed to this: Should the status quo be allowed to continue until events force the Government to take action? There would have been more to be said in favor of suspending action and leaving facts to settle the problem, had it not been for the circumstances which led the government of India to formulate proposals for curtailing the transition period and taking

“active steps to secure the early establishment of a gold standard and a stable exchange.” That opinion having been expressed by the government of India, and public discussion having been aroused by the publication of their proposals and by the present inquiry, it appears to us undesirable, even though results have proved more immediately successful than the government of India anticipated on March 3, 1898, to leave matters as they are. If in face of the public attention which the question has attracted, and in face of the considerable divergence of the views expressed on the subject, no further steps were now to be taken, an additional uncertainty would be caused, doubts would be excited as to the ultimate success of the gold standard, rumors would arise of a possible change of currency policy, the Government, both in India and at home, would be pressed for a final pronouncement, alike by the friends and by the foes of a gold standard, and meantime the material interests of India would suffer from the withdrawal of confidence in her monetary future.

For these reasons we conclude that steps should be taken to avoid all possibility of doubt as to the determination not to revert to a silver standard, but to proceed with measures for the effective establishment of a gold standard.

#### IV. *The Indian government's proposals.*

42. Having thus expressed our agreement in the objects which the government of India have in view, we pass to the consideration of the specific measures proposed by them with a view to making effective the monetary policy adopted by Her Majesty's Government in 1893 and initiated by the closing of the Indian mints to the unrestricted coinage of silver.

43. The proposals of the Indian government were contained in their dispatch of March 3, 1898, and have been explained to us by official witnesses. They may be summarized as follows:

In order to keep the exchange value of the rupee at a steady level of 16d., it was deemed necessary to decrease the rupee circulation so as to remove the relative redundancy. The amount to be so withdrawn could not be foretold with exactness, but it was more than probable that it would fall short of Rx. 24,000,000. Within this outside limit it was proposed “to melt down existing rupees, having first provided a reserve of gold, both for the practical purpose of taking the place of the silver, and in order to establish confidence in the issue of our measures.” The first step was to take powers to borrow sums not exceeding in the whole £20,000,000, and at once to remit £5,000,000 in sovereigns to India as a first installment. If exchange remained at or above 16d., there would be no further step (Q., 2653). But if, and so long as, the exchange fell below 16d. (Q., 2657-8), the government of India would take rupees from its balances, melt them down, sell the bullion for other rupees in India (at an assumed loss of 40 per cent), pay these other rupees into its balances, and finally make good thereto the 40 per cent balance of loss with part of the borrowed gold. It was anticipated (Q., 2663) that one borrowing (£5,000,000) might be sufficient, that sum approximately covering the assumed loss to government of Rx. 8,000,000 on melting down Rx. 20,000,000. As a result, it was anticipated that, by the automatic operations of trade, gold would flow into the country and remain in the circulation. But until the exchange value of the rupee was established at 16d., and

sovereigns became to some extent, however small, a permanent part of the circulation, it was not the government's intention to part with any of the gold in their possession. Meantime gold was not to be made a legal tender in India, though the government looked forward to this as a future goal.

44. The proposals of the government of India were based on the belief that the rise in the value of the rupee, and in the exchange with London, subsequent to the year 1894-95, was due to a contraction of the Indian currency relative to the demands of trade, that this cause would continue to operate so long as the Indian mints were closed to silver, and that, if only that stage of distrust could be passed, "which appears the moment exchange approximates to 16d. to bring into operation influences which interfere with the actual realization of that rate," the exchange, under normal conditions of trade, might be expected "to attain the level at which gold would be tendered under the notification of June 26, 1893, and the introduction of the gold standard would become practicable."

They were anxious, "both in the interests of the state and of the mercantile community to terminate the period of transition without further delay," in the interests of the state, because it would be cheaper in the end to acquire a reserve of gold by borrowing, and thus keep the exchange value of the rupee at a steady level of 16d., than to bear for years the burden of expenditure entailed by the lower level of the rupee; in the interests of the commercial community, because it was not desirable that their legitimate business should be hampered and embarrassed by the uncertainty of exchange, while the want of confidence in the stability of the rupee discouraged the investment of capital in India, and available capital was remitted to England whenever the exchange value of the rupee rose to a high level.

The proposals of the government of India were made in March, 1898, and since that date there has been a marked improvement in the position. The exchange has been steady at or about 1s. 4d., the drawings of the secretary of state have been unusually large, and a substantial sum of over £2,370,000 in gold has been brought to the Indian treasury; in other words, what the government of India described as the "stage of distrust," which interfered with the actual realization of a rate of 16d., has been already passed.

If the government of India could have foreseen the course of events in the past year, it is possible that their recommendations might not have taken the precise form in which they were put forward; and we are informed that even if their proposals had been sanctioned at once they would not, under the conditions that have since prevailed, have given effect to that portion of their scheme which provided for the withdrawal of rupees from the Indian currency. However that may be, we think it desirable that the proposals of the government of India should, even under the altered conditions of the present day, be carefully considered by us.

45. In the first place we desire to point out that it has not been proved that the rise in the value of the rupee since 1894-95 is due solely to relative contraction of the Indian currency, and it may be that it is not due mainly to this cause. It is not certain that there has been any contraction of the Indian currency which has materially affected the exchange, though it may not unreasonably be inferred that there must have been some contraction and that such contraction has had some influence on the exchange value of the rupee. On the

other hand, there are causes other than contraction of the currency which affect the value of the rupee and the exchange with London. Large borrowing in London on account of India, reduction of the drawings of the secretary of state, an increase in the exports from India unaccompanied by an equivalent increase in imports, as well as a general rise in gold prices, would all affect the rate of exchange with India, though it is quite impossible to estimate the relative importance of these factors among themselves or the amount of their influence on exchange as compared with the effect of a contraction of the currency or to state the precise degree of influence which any or all of them have had on any particular alteration in the exchange. Nor, on the other hand, is it certain that the unusually low rate of exchange that prevailed in 1894-95 was due solely to a relative redundancy of the Indian currency. The closing of the Indian mints necessarily brought into play many disturbing influences which may have affected 1894-95.

Since the mints were closed there has also been large borrowing on Indian account, and there have been, in some years, large reductions below the normal amount in the public remittances from India, while fluctuations have been experienced in the foreign trade of India, due to famine and plague as well as to other causes. All these causes must at different times have affected the exchange either favorably or unfavorably.

Another influence which must have had a favorable effect on the Indian Exchange is the reduction in the imports of silver due to the closing of the mints. The average yearly net import in the three years preceding the closing of the mints was 43,133,678 ounces, of the value of Rx. 12,020,296, and for the three years ending 1898-99 the average net import was 31,126,376 ounces, of the value of Rx. 6,103,431.

46. In face of the facts we have just stated we are unable to accept, without qualification, the opinion that the rise in the value of the rupee since 1894-95 has been due wholly or mainly to a relative contraction of the Indian currency. We are not prepared to say that the contraction of the Indian currency has not been an important factor in the rise in the Indian exchange, but so long as the facts of the case are surrounded by so much obscurity we consider that it would be unsafe to base action of so drastic a character on this assumption.

If it be the case that the rise in the value of the rupee since 1894-95 is not due, wholly or mainly, to the relative contraction of the Indian currency, it follows that an additional contraction of that currency, produced artificially by the withdrawal of rupees in the way proposed by the government of India, might not have so much effect in strengthening exchange as the government of India believed, and though we accept in principle the proposition that a reduction in the number of rupees tends to increase the value of the rupee, we are not prepared to admit that such effect must necessarily be direct and immediate; nor are we satisfied that such reduction, carried out on a large scale and within a limited period, might not aggravate, if it did not produce, a period of stringency in the Indian money market.

47. So far as the proposals of the government of India were intended to secure the confidence of the commercial community, they have failed in their effect; these proposals have not been supported before us by the representatives of the commercial and financial interests connected with India, nor, indeed, by any of the independent witnesses whom we have examined. The commercial classes of India appear to have feared that the withdrawal of rupees from the currency would inevitably aggravate or produce stringency in the Indian money

market, and that the sale of silver by the Indian government would lower the price of that metal and disturb the exchanges with China and other countries on a silver basis.

The argument of the government of India that the adoption of their proposals would involve less loss to the Indian exchequer than the maintenance of the status quo does not appear to us to possess much force. If the principle on which they based their proposals was sound—namely, that the rise in exchange was due to the contraction of the Indian currency and that the same cause would continue to act in the same direction so long as the Indian mints were closed to silver—there was no likelihood of any serious fall in exchange, and consequently no prospect of any considerable increase of expenditure on this account. If, on the other hand, the basis of their proposals was unsound, it was not certain that they would have produced the desired effect, and, while a considerable expenditure would have been incurred in borrowing in gold and withdrawing rupees from the currency, the operation might not have resulted in any material reduction in the charge for exchange.

Although we sympathize with the government of India in their desire to shorten the period of transition, to inspire confidence in the commercial community, and to remove an impediment to the flow of British capital to India, and recognize the force of the pressure upon them in the beginning of 1898 to take immediate steps in a direction which, it was hoped, would lead to the desired result, we can only say that, for the reasons already stated, we do not approve of their proposals and can not recommend their adoption.

#### V.—*A gold currency.*

48. It is of greater practical importance at the present time to consider what steps the government of India contemplated taking when, by their methods, that state of things had been established which is in actual operation to-day. They did not definitely propose to make gold coins a legal tender, but they did not hesitate to express the opinion that “the only state of things which can be called a thoroughly satisfactory attainment of a gold standard is one in which the gold coins which represent our standard are those also which are good for payments in England.” As a matter of principle, therefore, the government of India favored a gold standard with a gold currency.

49. This brings us to the consideration of schemes which have been proposed for establishing a gold standard without a gold currency. Great stress has been laid upon the hoarding habits of the natives of India, and in view of the direct encouragement which a gold currency might give to the hoarding of gold, it has been represented to us by Mr. Lesley Probyn that “if gold coins were passed into the currency it would be at first almost like pouring water into a sieve.” He accordingly proposed (i) to institute a separate issue of gold notes of the denomination of 10,000 rupees; (ii) to issue such notes only in exchange for gold; (iii) to make them payable (at the option of the holder) either in rupees or in gold; (iv) to make it optional to the currency department, when gold is demanded, to pay either in sovereigns or in gold bars of not less than £67. It was hoped that gold would be attracted to India, and that a gold reserve would be gradually accumulated which would be strong enough to allow the government to undertake ultimately the universal convertibility into gold of all rupees and rupee notes when presented in parcels of not

less than 10,000 rupees. Under this scheme the gold standard would be left to automatic agencies to establish, and its establishment would coincide with an ultimate undertaking to exchange rupee currency for gold bars of high value.

50. On this scheme we remark that, while bullion may be regarded as the international medium of exchange, there is no precedent for its permanent adoption for purposes of internal currency; nor does it accord with either European or Indian usage that the standard metal should not pass from hand to hand in the convenient form of current coin. No real support for such a scheme is to be drawn from the purely temporary provisions of "Peel's act" of 1819, whereby for a limited period the Bank of England, as a first step to the resumption of cash payments, was authorized to cash, in stamped gold bars, its notes, when presented in parcels of over £200. Little or no demand for gold bullion appears to have been made on the bank under these temporary provisions, which were repealed at the instance of the bank itself in 1821.

As regards the hoarding difficulty in India, we are not satisfied that the danger therefrom is so great as has been suggested. There is little or no likelihood, even according to the most sanguine view, that for a long time to come gold coins, even if declared a legal tender forthwith, would find their way to any great extent into general circulation. Even under silver monometallism India imported and absorbed gold, as she is doing to-day, and as she may be expected to do in the future, no matter what her system of currency. In a strongly conservative country like India no sudden changes are to be expected in the habits and customs of the people, particularly in matters relating to currency and hoarding; but while we must look to the continuance of the habit of hoarding, we may also feel satisfied that until gold has penetrated into general circulation (so far as the relatively small transactions of India permit) there will be no materially increased temptation to the natives of India to hoard gold instead of silver. Moreover, the introduction of a gold currency into India would not be an untried experiment. As has been shown above, gold coins were in common circulation in India generally within living memory, and were expressly stated in 1806 to form the principal currency and money of account of Madras. If hoarding did not render a gold circulation an impossibility in the past, we look for no such result in the future.

51. Consequently we are of opinion that the habit of hoarding does not present such practical difficulties as to justify a permanent refusal to allow India to possess the normal accompaniment of a gold standard, namely, a gold currency.

52. Another plan for establishing a gold standard in India without a gold currency was submitted and explained with great ability by Mr. A. M. Lindsay. In order to fix the sterling exchange he proposed to make the rupee currency freely convertible in India at a fixed rate into drafts on a sterling fund located in London. At the same time rupee drafts were to be sold at a fixed rate in London. Assuming a par of 16d., sterling in London was to be convertible into rupees in India at 16 $\frac{1}{16}$ d., and rupees in India were to be convertible into sterling in London at 15 $\frac{3}{4}$ d.; drafts were to be sold both in India and in London to any extent, but the amount in each case was to be not less than 15,000 rupees and £1,000, respectively. In order to provide for meeting the sterling drafts, a loan not exceeding £10,000,000 was to be raised in London, while, so far as the available stock of rupees

proved insufficient, silver would be purchased (also out of the loan) and sent to India to be there coined into rupees. If an excess of rupees accumulated as the result of selling sterling drafts, it might be necessary to sell the excess as bullion and credit the proceeds to the sterling fund. Under the scheme rupees would continue to form the circulating medium of India, gold not being admitted to legal tender. While Mr. Lindsay held that such a system of currency would answer all purposes and be economical, and might, therefore, be permanently adopted, he considered (Q. 4303-4) that his scheme would be the best means of leading up to a gold currency, if this were ultimately thought desirable.

53. It is evident that the arguments which tell against the permanent adoption of Mr. Probyn's bullion scheme and in favor of a gold currency for India tell more strongly against Mr. Lindsay's ingenious scheme for what has been termed "an exchange standard." We have been impressed by the evidence of Lord Rothschild, Sir John Lubbock, Sir Samuel Montagu, and others that any system without a visible gold currency would be looked upon with distrust. In face of this expression of opinion it is difficult to avoid the conclusion that the adoption of Mr. Lindsay's scheme would check that flow of capital to India upon which her economic future so greatly depends. Moreover, if the system were to be permanent, it would base India's gold standard for all time on a few millions of gold (or rather command over gold) in London, with a liability to pay out gold in London in exchange for rupees received in India to an indefinite extent. This was the main reason which weighed with the government of India in deciding not to adopt the scheme, and we think they were justified in their conclusion. We are not prepared to recommend Mr. Lindsay's scheme, or the analogous schemes proposed by the late Mr. Raphael and by Major Darwin, for adoption as a permanent arrangement, and existing circumstances do not suggest the necessity for adopting any of these schemes as a provisional measure for fixing the sterling exchange.

54. We are in favor of making the British sovereign a legal tender and a current coin in India. We also consider that, at the same time, the Indian mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian branches of the royal mint. The result would be that, under identical conditions, the sovereign would be coined and would circulate both at home and in India. Looking forward as we do to the effective establishment in India of a gold standard and currency based on the principles of the free inflow and outflow of gold, we recommend these measures for adoption.

## VI. *Convertibility.*

55. Under an effective gold standard rupees would be token coins, subsidiary to the sovereign. But existing conditions in India do not warrant the imposition of a limit on the amount for which they should constitute a legal tender; indeed, for some time to come no such limitation can be contemplated.

56. It is true that in the United Kingdom the silver currency has a fixed limit of 40s., beyond which it can not be used to pay a debt. But this has not always been the case. Prior to 1774 the English mint was open to silver, and silver coins were an unlimited tender. In 1774 the tender of silver by tale was restricted to £25 in any one

payment, although it was left an unlimited tender by weight. In 1798 the free coinage of silver was stopped altogether, the English mint being thereby closed to silver. In 1816, when gold monometallism was formally established by law, silver coins were placed on a purely subsidiary footing, with a 40s. limit of tender. At the present time the right to coin silver is confined to the Government, who are responsible for seeing that there is no overissue; and in the exercise of that responsibility no additional silver is coined at the royal mint for the United Kingdom except in response to the automatic demands of trade, as testified by requisitions received through the banks of England, of Scotland, or of Ireland. Seeing that for every 20s. of additional silver coin requisitioned the banks have to credit the royal mint with a sovereign, there is certainly no temptation to them to demand an overissue, the immediate profit on which would go not to themselves but to Her Majesty's Government. While it can not be denied that the 40s. limitation tends to emphasize and maintain the subsidiary character of our silver coinage, yet the essential factor in maintaining those tokens at their representative nominal value is not the statutory limit on the amount for which they are a legal tender in any one payment, but the limitation of their total issue. Provided the latter restriction is adequate, there is no essential reason why there need be any limit on the amount for which tokens are a tender by law. It is principally to restriction of the total issue of silver coinage in the United Kingdom that we attribute the fact that 20 silver shillings (intrinsically worth at present about 8s. 6d.) pass current and are freely received, for all purposes of internal currency, indifferently with the sovereign, which they purport to represent. By law there is no convertibility of our silver coins into gold. They possess an extralegal convertibility evinced by their being generally and popularly exchangeable into gold, and this quality they owe essentially to the fact that they are not issued by the Government in excess of the volume required for the purpose which they discharge.

57. Outside the United Kingdom there are two principal instances of countries with a gold standard and currency which admit silver coins to unlimited tender. These countries are France and the United States of America. In France the 5-franc piece is an unlimited tender and for all internal purposes is equivalent to gold. The same remark applies in the United States to the silver dollar. At the present time there is no addition to the coinage either of 5-franc pieces or of United States silver dollars. In the case of the 5-franc piece there was free coinage up to 1874; in January, 1874, the coinage was limited, and in November, 1878, it was suspended altogether. With the repeal in 1893 of the purchasing clauses of the Sherman Act the same result was reached with regard to the United States silver dollar. Both in France and in the United States the mints are now closed to the coinage of silver coins of unlimited tender. In neither country are such coins convertible by law into gold; in both countries alike they are equivalent to gold for all internal purposes. For international payments, so far as specie is concerned, France and the United States depend ultimately on the international medium of exchange, which is gold. In the last resort it is their gold which, acting through the foreign exchanges, maintains the whole mass of their currency at its nominal value for internal purposes.

58. We do not doubt that it is, in theory, possible to attain the same result in India as in France and the United States of America by limitation of the quantity of the rupee currency. The special dif-

ficulty in the case of India is one of degree and not of principle. We are unwilling to commit ourselves to the acceptance of the estimates which have been made of the number of rupees actually circulating in India. There can be no doubt but that it is very large; and there are also large quantities of rupees in existence which, though not actually circulating, might, under certain conditions, be brought into circulation. On this account doubts have been entertained in the past whether the mere closing of the Indian mints to silver would, in practice, be attended with such a restriction of the rupee currency as would make the rupee permanently exchangeable for gold at a fixed rate.

The experience which has been gained since the closing of the Indian mints supports the belief that this result will be attained. From the nature of the case, the demand for rupee currency increases every year; there is no evidence that large quantities of rupees that were formerly hoarded have been thrown into circulation since the mints were closed; the exchange has risen steadily since 1894-95, and the rupee is now actually exchangeable for gold at the rate of 1s. 4d., while the demand for additional currency has been so great that over £2,370,000 in gold has been paid to the Indian treasury for the purchase of silver rupees.

The forces which affect the gold value of the rupee are complicated and obscure in their mode of operation, and we are unable, therefore, to say positively that the mere closing of the mints to silver will, in practice, lead to such a limitation of the rupee currency, relatively to the demands for it, as will make the rupee permanently exchangeable for gold at a fixed rate, but we have no hesitation in repeating the opinion that the experience of the last few years, so far as it goes, indicates that this result is attainable—if, indeed, it has not already been attained.

59. The position of the currency question in India being such as we have explained in the preceding paragraph, we do not consider it necessary to recommend a different policy in the case of that country from that which is found sufficient in France and the United States, by imposing a legal obligation on the government of India to give gold for rupees, or, in other words, to substitute the former for the latter on the demand of the holders. This obligation would impose on the government of India a liability to find gold at a moment's notice to an amount which can not be defined beforehand, and the liability is one which, in our opinion, ought not to be accepted.

Although the government of India should not, in our opinion, be bound by law to part with its gold in exchange for rupees, or for merely internal purposes, we regard it as the principal use of a gold reserve that it should be freely available for foreign remittances whenever the exchange falls below specie point, and the government of India should make its gold available for this purpose when necessary, under such conditions as the circumstances of the time may render desirable. For example, the government of India might, if the exchange showed a tendency to fall below specie point, remit to England a portion of the gold which it may hold, a corresponding reduction being made in the drawings of the secretary of state, and when it has accumulated a sufficient gold reserve, and so long as gold is available in its treasury, it might discharge its obligations in India in gold instead of in rupees.

60. The exclusive right to coin fresh rupees must remain vested in the government of India; and though the existing stock of rupees

may suffice for some time, regulations will ultimately be needed for providing such additions to the silver currency as may prove necessary. The government should continue to give rupees for gold, but fresh rupees should not be coined until the proportion of gold in the currency is found to exceed the requirements of the public. We also recommend that any profit on the coinage of rupees should not be credited to the revenue or held as a portion of the ordinary balance of the government of India, but should be kept in gold as a special reserve, entirely apart from the paper currency reserve and the ordinary treasury balances.

#### VII.—*The sterling rate for the rupee.*

61. We have now to consider the fixed relation which, under a gold standard for India, the rupee should bear to the sovereign. Hitherto we have dealt in general terms with the question of a gold standard, and our recommendations have presupposed a fixed relation, but have not specified the actual rate which should be adopted. We have now to state to your lordship the conclusions we have reached on this matter.

62. The government of India proposed in 1892 to close the Indian mints to silver and to pass an act authorizing them to declare gold a legal tender at a rate not exceeding 18d. for the rupee. They would not have exercised this power at once, and they would have been guided by circumstances and the experience gained by the closing of the mints in determining what should be the fixed, permanent, legal ratio between the rupee and the sovereign. The rate could not, however, under the law proposed by the government of India, have exceeded 18d. for the rupee, though it might have been lower.

The proposals of the government of India were generally approved by Lord Herschell's committee, but the committee recommended a provisional limit which would prevent the exchange with India from rising materially above 1s. 4d. for the rupee. The committee did not recommend that the limit of 1s. 4d. for the rupee should be the permanent legal ratio between the rupee and the sovereign. It left the question of the permanent legal ratio between the two coins to be decided in the light of subsequent experience. In paragraph 151 of the committee's report the following language is used: "It would not, of course, be essential to the plan that the ratio should never be fixed above 1s. 4d. Circumstances might arise rendering it proper and even necessary to raise the ratio, and the Indian government might be empowered to alter it with the sanction of the secretary of state. Such a scheme would, indeed, in the first instance, be tentative, and would not impede further action if circumstances should render it desirable."

The modifications of the proposals of the government of India recommended by Lord Herschell's committee were accepted, the Indian mints were closed to silver, and a provisional arrangement was made for giving rupees in exchange for gold at the rate of 16d. for the rupee.

The maximum limit of 18d. for the rupee, originally suggested by the government of India was not imposed, and the question of the permanent legal ratio can now be considered in the light of what is expedient in the present day, and unfettered by any promises made or conditions imposed in the past.

63. In dealing with this question at the present day, it is desirable to have in view an outline of the whole series of facts of exchange,

both before and after the closing of the Indian mints to silver on June 26, 1893. Starting from the year in which Germany demonetized silver, the following table shows the average rate per rupee at which council bills and telegraphic transfers on India were sold in London:

	<i>d.</i>		<i>d.</i>
1872-73	22.754	1886-87	17.441
1873-74	22.351	1887-88	16.898
1874-75	22.156	1888-89	16.379
1875-76	21.626	1889-90	16.566
1876-77	20.508	1890-91	18.089
1877-78	20.791	1891-92	16.733
1878-79	19.794	1892-93	14.985
1879-80	19.961	1893-94	14.547
1880-81	19.956	1894-95	13.101
1881-82	19.895	1895-96	13.638
1882-83	19.525	1896-97	14.451
1883-84	19.536	1897-98	15.354
1884-85	19.308	1898-99	15.978
1885-86	18.254		

From these figures it will be observed that, after a fall of about 3d. in the first six years, there was comparative stability above 19d. for the seven years from 1878-79 to 1884-85; that, apart from the temporary effects of the passing of the Sherman Act in 1890 and the speculation connected therewith, the average rate ranged round 16½d. in 1887-88, 1888-89, 1889-90, and again in 1891-92; and that in 1892-93 the average rate had fallen to under 15d. It was under these circumstances that on May 31, 1893, the Herschell committee, in recommending the closing of the Indian mints to the public, further recommended that rupees should be coined on tender of gold at the mints "at a ratio to be fixed in the first instance not much above that now prevailing, say 1s. 4d. the rupee." That did not propose to go back to the so-called par of 2s.; they fixed, provisionally, a maximum limit which was lower by 2d. than the limit of 1s. 6d. proposed by the government of India. Apart from a momentary rise to 1s. 4½d. for telegraphic transfers on June 27, the Indian exchange fell steadily away through the second half of 1893 and through the whole of 1894, until on January 23, 1895, council bills were sold at 1s. 0½d. From that date onward there was, on the whole, a steady and a continuous rise of the exchange, and 16d. was regained (after an interval of six years) in the early days of January, 1898. From the beginning of 1898 up to the present time a rate of 16d. has practically been maintained without a break, the extreme limits of oscillation for bills being 15¼d. and 16½d.

64. In the year 1898-99 the total volume of the export trade exceeded that of all past years, amounting to over Rx. 120,000,000. and showed a net surplus over total imports of no less than Rx. 30,000,000. As we have pointed out, this result was achieved with a 16d. rate of exchange and without monetary stringency. We have further pointed out that in the year 1898-99 the government of India has been able to accumulate a gold reserve of £2,378,609, which will contribute toward the maintenance of exchange. Moreover, the continuance of existing arrangements, under which no fresh rupees are coined except in exchange for gold at a fixed rate, must tend more and more to establish the exchange at such rate and to insure the gradual and automatic introduction of a gold currency to supplement, in response to the growing demands of trade, the relatively shrinking stock of rupees.

65. Although the limit of 1s. 4d. for the rupee was declared to be merely provisional, it has been regarded generally as the permanent rate at which the India monetary standard was to be transferred from a silver to a gold basis. There are some who would prefer a lower rate, and there are others who are prepared to accept a higher rate, but it is not desirable, in the absence of any strong reason, to adopt a rate different from that on which calculations have been based and which has formed the ground of practical action.

We also desire to point out that the rate of 1s. 4d. is that of the present day. Prices in India may be assumed to have adjusted themselves to it, and the adoption of a materially lower rate at the present time would cause a distinct and, in our opinion, a mischievous disturbance of trade and business. The onus probandi rests on those who would now propose a different rate. Between the rate of 1s. 4d. and the rate determined by the bullion value of the rupee there is no one rate which can be described as natural or normal rather than any other rate.

66. Various proposals have been made for disturbing the existing rate by the substitution of another rate. It has been proposed to fix the rate at 1s. 1½d., 1s. 2d., 1s. 2¼d., 1s. 3d., and 1s. 6d. All these proposals are arbitrary, and involve a dislocation of the existing ratio between rupee prices and sterling prices. For such disturbance no adequate reasons, in our opinion, have been adduced. In great part these proposals (other than that of 1s. 6d.) are based on the belief that a lower sterling value of the rupee would cause a rise in rupee prices, benefit the Indian producer, check consumption of foreign goods, and so affect the balance of trade as to promote the importation of gold needed for expanding the volume of currency to an extent commensurate with the rise in the scale of prices.

In our opinion a rise in prices which expresses only the depreciation of the currency is no gain to the community as a whole, and, although the fixing of a lower denomination in sterling for the rupee might for a time give some advantage to producers and induce for a limited period a larger importation of gold than would otherwise take place, this would be at the expense of every holder of a rupee, or debt or security for a fixed amount of rupees, and the taxpayer would again be compelled to provide a larger amount of currency to meet the sterling requirements of the State. It is not by such an expedient as the writing down of the rupee in sterling that a permanent stimulus can be given to production or to the importation of the standard metal. We see no sufficient reason for altering the existing relations of prices and the essential conditions of contracts expressed in Indian currency, or for reversing the course of exchange and returning to some basis of value which may have prevailed during the interval between the fall and partial recovery in the sterling value of the rupee, and which does not possess elements of permanent stability in a higher degree than the present rate. We are, therefore, of opinion that the permanent rate should be that which has been adopted as the provisional rate in the past, and which is also the market rate of to-day, viz, 1s. 4d. for the rupee.

67. In recommending a fixed legal rate of 1s. 4d. we are not unanimous, though the majority hold the views we have just expressed.

One of our number would not fix the permanent rate at once, but would leave that question to be decided in the light of further experience, the final rate being fixed either below or above 16d., as further

experience might show to be expedient. We are of opinion that any advantage which might arise from this course is more than counter-balanced by the importance of removing doubts as to the future policy of the government of India and giving increased confidence to those who are engaged in the commercial and financial business in connection with the Indian Empire.

68. Two other members of the committee are not prepared to accept the rate of 1s. 4d., and recommend that it should be fixed at 1s. 3d.

It is argued that the rate of 1s. 3d. will be more favorable to the Indian export trade than 1s. 4d.; but we have already expressed the opinion that any advantage to the export trade that is gained in this way is gained at the expense of other members of the community and is only temporary. If the rate is to be fixed at 1s. 3d. in order to benefit the Indian exporters and the Indian producer of articles of export, the same argument would justify a further reduction to 1s. 2d., and so on, without any limit which we have been able to discover, nor do we think there are any good grounds for holding that the gold standard can not be established in India at 1s. 4d., while it can be established at 1s. 3d.

If it is impossible at 1s. 4d. it will be impossible at 1s. 3d., and we have already dealt in paragraph 66 with the question of the temporary loss and gain to individuals and classes of the community caused by a lowering of the existing rate of exchange. We would add that if the exchange were now lowered from 1s. 4d. to 1s. 3d. the classes of the community who would gain are those who have already gained through the fall from 2s. to 1s. 4d., and the classes who would lose are those who have already lost through that fall. Stronger reasons than appear to us to exist would be needed to justify a measure which would have the effect of adding to the gains of the former classes and intensifying the losses of the latter.

It is said that the conditions prevailing in 1893 show that 1s. 3d. is the rate that should have been adopted at that time. We do not accept this argument, and the conditions have changed since 1893. The rate of 1s. 3d. may have prevailed shortly before the mints were closed, but the rate of that time was a fluctuating rate. If the mints had been closed some years earlier, and the market rate had been adopted, the permanent rate would have been considerably higher than 1s. 4d.; if they had been closed some years later and the same principle had been followed, the permanent rate would have been lower than 1s. 3d. As we have already said, between the rate of to-day and that determined by the bullion value of the rupee, there is none which can be described as natural or normal, and we can find no good reason for making the permanent rate depend upon the accident of the date on which the Indian mints were closed to silver.

It is true that Lord Herschell's committee remarked that "to close the mints for the purpose of raising the value of the rupee is open to much more serious objection than to do so for the purpose of preventing a further fall;" but an undue stress is laid on these words when they are used as an argument against permanently adopting a rate of 1s. 4d., since that committee actually adopted a provisional rate of 1s. 4d. and expressly said that circumstances might arise rendering it proper and even necessary to raise the rate.

69. We recommend that there should be no change in the existing relation of the rupee to the sovereign. The experience gained since the mints were closed in 1893, and particularly that of the last eight-

een months, appears to us to justify the anticipation that the existing rate of 1s. 4d. will, with possible temporary fluctuations, due to the course of trade, be maintained in the future.

### VIII.

70. In conclusion, we desire to record our opinion that the effective establishment of a gold standard is of paramount importance to the material interests of India. Not only will stability of exchange with the great commercial countries of the world tend to promote her existing trade, but also there is every reason to anticipate that with the growth of confidence in a stable exchange capital will be encouraged to flow freely into India for the further development of her great natural resources. For the speedy attainment of this object it is eminently desirable that the government of India, with whom it will rest to decide when successive steps should be taken, should husband the resources at their command, exercise a resolute economy, and restrict the growth of their gold obligations.

71. We desire to express our high appreciation of the assistance which Mr. Chalmers has rendered to us throughout the whole course of this inquiry. We feel it to be our duty to recognize in the strongest terms the knowledge, ability, courtesy, and industry which he has displayed and which have greatly facilitated our labors.

HENRY H. FOWLER.  
BALFOUR OF BURLEIGH.  
JOHN MUIR.<sup>a</sup>  
FRANCIS MOWATT.  
D. BARBOUR.  
C. H. T. CROSTHWAITE.  
ALFRED DENT.  
F. C. LE MARCHANT.  
E. A. HAMBRO.  
W. H. HOLLAND.  
ROBT. CAMPBELL.<sup>a</sup>

ROBERT CHALMERS, *Secretary*.

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Although I am aware that the question of the banking facilities of India was not referred to the committee, I venture to call special attention to the first part of paragraph 22, where it is pointed out that they have not of late years kept pace with the increasing trade, and, further, to draw attention to the fact that it has been considered wise in Europe to intrust the carrying out of currency laws to banks established or strengthened for that purpose. In my opinion, a strong bank, properly constituted, would be a powerful assistant in giving effect to any regulation having the convertibility of the rupee in view, and that, working under proper currency regulations, such a bank would be likely to carry them out in a more effective way and in a manner more in harmony with the trade wants of the country than any Government department, however well administered, could possibly do.

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<sup>a</sup>Subject to a reservation as to the ratio to be adopted between gold and the rupee and the points connected with that question in regard to which our views are expressed in the subjoined note.

I venture to call attention to this point because I believe that the success of the recommendations of the committee, if adopted, will very much depend on the banking wants of the country being assisted in times of pressure and curtailed in times of slackness; and this, in my opinion, could only be done by the establishment of some institution having ample facilities at its disposal and framed on somewhat similar lines to those of either the Bank of England or the Bank of France.

E. A. HAMBRO.

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Since the committee was appointed the condition of the money market in India has so greatly improved that the immediate settlement of the currency question has, in my opinion, become less urgent than it was in the spring of 1898.

Under existing conditions gold is not, in form, a legal tender in India, yet for all practical purposes the sovereign is now a legal tender for 15 rupees, because the holder of a sovereign can obtain for it 15 rupees at the government treasury, and these 15 rupees constitute a legal tender. To make the sovereign a legal tender at the rate of 15 rupees is therefore only a change in form and not in substance and will neither strengthen exchange nor be likely to lead to a greater import of gold into India.

It may be that further experience will show the balance of advantage to lie with a lower exchange than 1s. 4d., or, on the contrary, circumstances might conceivably arise (e. g., silver legislation in the United States) which would necessitate a higher rate. In view of these possibilities and of the fact that the existing monetary conditions of India are not, in my judgment, producing any serious evils, I am of opinion that no action should be taken at the present time in the direction of finally settling the rate between the sovereign and the rupee, but that the question should be left to be decided in the fuller light which would be afforded by further experience.

Subject to these remarks, I am in general accord with the principles of the report.

W. H. HOLLAND.

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We do not admit that the experience of the last six years justifies the adoption of a 1s. 4d. ratio. For five years after the closing of the mints exchange never effectively reached that level in the sense of bringing gold to the currency, and while giving due weight to the fact that during the last six months the currency department has received a considerable amount of gold, we can not agree that a single year of unprecedentedly large exports, arising from exceptional causes, is a sufficient basis for assuming that this will continue to the extent necessary for India's currency requirements. The great rise in the price of wheat in April to June of last year increased the Indian exports of that article to Rx. 9,720,333, as compared with Rx. 1,341,151 in 1897-98 and an average of Rx. 2,750,137 in the five years 1893-94 to 1897-98, inclusive. The exports of rice were also Rx. 3,500,000 above the average of the previous five years. But for these exceptional causes last year's total exports would not have been unusually large, and it may be questioned whether gold would have found its way to India as currency in any quantity.

A review of the circumstances which accompanied the closing of the mints is sufficient to show that the violent disturbances which unsettled exchange for several years were mainly due to the arbitrary enhancement of the rupee to 1s. 4d. On May 31, 1893, the date of the Herschell committee's report, exchange stood at 1s. 2½d. It will be remembered that although the report was not made public till June 26, the day the mints were closed, its purport became known to a group of speculators almost as soon as it was signed (a correct summary was published in a continental newspaper on June 7). This led to immense speculation in exchange and rupee paper, in connection with which unusually large remittances were made to India. Between May 31 and June 6 no less than Rx. 3,780,000 council bills were taken, and in addition £1,180,000 of bar silver was shipped. It was then believed that the closing of the mints would establish a 1s. 4d. rate, and consequently there was a strong movement to remit money out at anything under it. Exchange touched 1s. 4d. for a day on June 27, but it soon became apparent that the rise had been overdone, and the downward movement which followed, assisted by the plethora of money arising from the above operations, carried exchange as much below its level as it had previously been forced above it. Had a 1s. 3d. rate been adopted these wide fluctuations would not have taken place, and we believe the market would have settled down to it without much difficulty, that gold would have gone to India as currency to a fair extent in 1896-97, if not earlier, and to a larger extent in 1897-98, and that the intense monetary stringency of these two seasons would have been avoided.

When exchange began to advance after touching its lowest point on January 23, 1895, it gradually recovered without any pressure on the money market till 1s. 3d. was reached in November, 1896. The Presidency Banks' rates were then 6 to 8 per cent, the latter being the highest rate touched during the period in question. It was only when exchange began to rise above 1s. 3d. that stringency was experienced, and that the raising of the rate by the additional penny required to bring relief in the shape of gold became a difficult process accompanied by extreme monetary pressure.

These considerations appear to us to point to 1s. 3d. as the ratio which should be adopted rather than a forced ratio of 1s. 4d.

The advocates of a 1s. 4d. ratio point to the fact that this rate has now been more or less effective for the last eighteen months, thereby establishing a status quo which it would be unwise to disturb. This argument would have greater weight if the status quo had been arrived at in a natural way, but the circumstances under which it was reached have only to be considered to deprive it of any value. With no fresh currency otherwise obtainable, the monopoly rupee was bound in time to rise to whatever gold point the Indian government chose to fix; and the fact of its having risen in five years to 1s. 4d. is of itself no more a proof that 1s. 4d. is an equitable ratio than it would be in regard to 1s. 6d. or 1s. 8d., which could equally be reached in course of time. To arrive at a rate in this manner and then point to the accomplished fact as disposing of any question of its propriety is not convincing, especially if there is reason to believe that a rupee so greatly enhanced is calculated to have an injurious effect on the country's interests and to retard or even jeopardize the success of the gold standard.

We approve of the principle that India should be allowed to acquire the necessary gold by means of the trade balance in her favor. But to

enable her to do so anything calculated to injure that balance should be avoided. This is equally imperative on the ground that it is on the trade balance that India also depends for the power to meet her foreign obligations; and the rate of exchange, or the ratio fixed between gold and the rupee, is of the greatest importance in its bearing on her ability to maintain a balance of exports over imports sufficient to meet both these requirements.

The committee have obtained a great deal of evidence as to the effect of exchange on trade, and, although opinions differ, this at least is undoubted, that the rate of exchange has a direct influence on the rupee prices of articles of export and import. A lower exchange gives the Indian exporter a higher rupee price for his produce, without raising the gold price to the foreign buyer, while compelling an importer of foreign goods to exact a higher rupee price to cover his gold outlay. A higher exchange, on the other hand, lowers the rupee price of native produce, while enabling the foreign importer to sell his goods cheaper. An appreciated exchange through its action on prices has thus a double effect on the trade balance, by checking exports and stimulating imports; and that this is not of the temporary character which some maintain is shown in India's opium trade with China.

Owing to the closing of the mints, China exchange on India has fallen from about 306 rupees per 100 taels in 1892-93 to the present level of about 204 rupees (it has been even lower), thus necessitating a higher price for opium in China to give the Indian exporter the same rupee return. Viewed in this light, the course of the trade is instructive.

There has been an advance in the tael price in Shanghai from an average (Patna, Benares, and Malwa together) of about 397 taels per picul in 1892 to 556 taels in 1897, notwithstanding which the price in India has fallen from an average of about 1,202 rupees per chest in the former year to about 1,114 rupees in the latter, while Indian exports have diminished from 75,384 chests in 1892-93 to 56,069 chests in 1897-98.<sup>a</sup> We thus see the effect of the enhanced rupee in a falling off in the Indian exports and a lower rupee price, the rise in the tael price, large as it is, not having gone far enough (being checked by the stimulus given to Chinese native competition) to enable India to export to the same advantage in face of the adverse exchange. Looked at from China's point of view, the effect of the fall in the tael exchange in checking imports into China is equally apparent, and the truth of the principle that a rise in exchange checks exports and stimulates imports, while a fall has the contrary effect, is thus shown in the trade of both countries. In the budget statement of March, 1899, paragraph 166, the finance minister makes the following comment in his remarks on opium: "The growing competition of the China drug has prevented the price in China from rising in proportion to the increased value of the rupee due to the currency legislation of 1893." For "increased value of the rupee," read "fall in the China exchange on India," and there could not be a clearer confirmation of the effect of the enhancement of the rupee on India's opium trade. It must be added that the export of opium to China increased last year to 67,128 chests, which is explained in the same paragraph to be "largely due to a scanty crop in China."

<sup>a</sup> These figures are taken from the Financial and Commercial Statistics, up to the end of 1897, published by the Government of India. The volume embracing 1898 is not yet issued.

The opium trade has been described as a dwindling trade at the best, but it is impossible to doubt that the falling off in the last six years is largely due to the enhanced rupee.

Another branch of India's trade with the Far East—her exports of cotton, cotton yarn, and goods—is also exposed to a danger which it would be unwise to aggravate by pushing the enhancement of the rupee too far. Within the last few years an important cotton-mill industry has sprung up in China and Japan for the supply of their home markets, although the effect on India has scarcely yet had time to manifest itself for two reasons, first, that Japan uses Indian cotton largely in her mills, which, so far, places her products on a level with those of India,<sup>a</sup> and, secondly, because the China mills only came into operation in the end of 1896 (Q. 12, 493), so that the industry is still in its infancy. The conditions, however, which have assisted the competition of China-grown against Indian opium may in time be equally effective in regard to cotton. There are indications that the cultivation of cotton is extending (Consular Report, p. 57, Vol. II), and, if Japan should find it more advantageous to buy her cotton in China, a serious blow may in time be dealt to another branch of India's export trade.

We do not ignore the evidence as to the appreciation of copper cash, which as the usual wage-paying medium in China must largely govern the cost of production. We are told (Q. 8,250-2) that it has appreciated in relation to silver about 15 per cent in the last five or six years. This represents less than half the fall in the China exchange, so that a modification of the present enhancement of the rupee is still necessary to put India on fair terms of competition with China.

India's disadvantage is not less real in her competition with silver-standard countries for the export trade to neutral markets. As regards tea, China with her dollar at its bullion value will be greatly assisted by an enhanced rupee in her endeavors to recover her former predominant position. Although her exports of tea to the United Kingdom are now comparatively small, her total exports amounted to 205,000,000 pounds last year. Her productive power is therefore by no means crippled, and it would be a mistake to think that India can afford to disregard her competition.

In principle the effect of an enhanced rupee equally applies to India's trade with gold-standard countries, although as sterling exchange has never fallen to the silver bullion point it may be less marked.

Without going so low as that point or even the lowest rate touched since 1893, the arbitrary enhancement of the rupee has been considerable, and the step taken that year went a good deal beyond merely checking a further fall. Referring to the report of the Herschell committee, we find that, after discussing at some length the probable effect on Indian trade of a rupee divorced from its bullion value, they made the following important statement in paragraph 135: "It is impossible, in view of these considerations, not to come to the conclusion that to close the mints for the purpose of raising the value of the rupee is open to much more serious objections than to do so for the purpose of preventing a further fall." The value of the rupee on May 31, 1893, the date of the committee's report, was 1s. 2½d., and it is difficult to reconcile the above declaration with their conclusion recommending a ratio of 1s. 4d., or more than 9 per cent higher.

<sup>a</sup> Although Japan is on a gold basis, it is at a ratio equivalent to 11½d. per rupee as compared with India's 1s. 4d.

Even applying the expression "preventing a further fall" to the date of their appointment, October 21, 1892, the rate of exchange then was 1s. 3.06d., on which 1s. 4d. represents an enhancement of 6 per cent.

As to the compensating adjustments which are said to make up to the producer for the smaller rupee price he has to accept for his produce in consequence of a higher exchange, we are unable to see where they are to come from—they have not yet been arrived at in the case of opium. The evidence shows (Q. 9612-6) that wages in India—that is, cost of production—have not fallen since the rupee was at 12½d. four and a half years ago, nor does it appear that any fall is likely, even if such a thing were desirable, so that there is no compensation to be looked for in that direction, nor do we think it can be expected from a rise in the sterling prices of those articles in which India competes with other countries. Indian wheat, for instance, has to compete in the European markets with the wheat of Europe, the United States, Canada, Argentina, etc., and, forming but a small proportion of the total supply, can have an equally small influence in determining movements in the price. If a rise in the sterling exchange renders it necessary that India should get a higher price for wheat in England to give her the same rupee return, is it likely that the holding back for a higher price of a few thousand tons of Indian wheat will have any appreciable effect in that direction while the home supplies and the imports from these other countries are pouring in as usual? Any attempt to establish a rise for India's benefit would at once be swamped by increased supplies from other quarters. The market will not concern itself with the larger or smaller rupee out-turn realized by the Indian grower, who will either have to take the current price or do without; and the lower rupee price caused by the higher exchange must therefore represent a loss to the producer.

It is on this aspect of the question that we base our strongest objection to the 1s. 4d. ratio—its effect as an unfair tax on native production while conferring a bounty on imported goods. It is not a sufficient reply to this to say that, as imports are paid for by exports, the gain and loss to the community are equal. This is evident when we consider that the native producer is the class which loses, while the class which gains is the consumer of imported goods. It can never be sound policy to handicap native industry while giving a bounty to foreign imports, and in the case of India, with large foreign obligations, which can only be met by surplus exports of produce, it would be a fatal course to pursue. But beyond the effect on exports and imports so far as they balance each other, it still remains that with a 1s. 4d. exchange the cost of providing at 15 rupees each the 17,000,000 sovereigns annually required for the home charges is a tax which falls entirely on the producer. The more the rupee is enhanced—the lower the sovereign is valued in rupees—the more cheaply can the government make its annual remittances. But this advantage is not obtained without being paid for, and the question who pays is not difficult to answer—it is the producer, who has to accept so many fewer rupees for the produce he has to sell. If with a 1s. 4d. exchange the holder of a sovereign can only get 15 rupees for it, he can not afford to pay so many rupees for a ton of Indian produce as if with exchange at 1s. 3d. he could convert his sovereign into 16 rupees. To deny that arbitrary enhancement of the currency is a tax, and to argue that the producer is no worse off in the long run, that wages and other charges must in time adjust themselves to its altered value, is to maintain the dangerous principle that the government may lighten its liabilities without injury to anybody by a step of this kind.

Such a step is undoubtedly a tax on production, and if the government plead that in the absence of any other available source of revenue trade must bear it, it is unwise to throw the whole of it on one side of trade, the side which it is least expedient to tax, and to penalize production while giving a bounty to foreign imports. The present duty on imports does not counterbalance the bounty conferred by a 1s. 4d. exchange, and the burden would be more equitably adjusted by reducing the ratio to 1s. 3d. In addition to its beneficial effect on trade, this would relieve production by about  $6\frac{1}{4}$  per cent, while depriving foreign competition of a corresponding bounty, and last year's favorable budget gives ground for the hope that the additional cost to the government would be made good out of existing sources of revenue.

The ratio is still an open question. In his speech introducing the act of 1893 Sir David Barbour stated that it was left open to be decided by the light of future experience. The government, therefore, are not committed to 1s. 4d., they are perfectly free to alter the ratio now without exposing themselves to any charge of weakness or breach of faith. The desirability of adhering to existing conditions should not be allowed to weigh at the present stage. Whatever objections there may be to altering the ratio now, they are trifling in comparison with what will be experienced later, should the present ratio not be found practicable. To amend the ratio now would only be to act on the reservation made in 1893; to do so later, after having formally adopted 1s. 4d., would be a much more serious matter.

The test of a proper ratio is not merely that it should enable the council bills to be absorbed, or even its power to attract gold in an exceptionally prosperous year. It should be such as to do so in normal times sufficiently to provide for any drain occasioned by an exceptional adverse season, and to allow gold to gradually accumulate and supplement silver in the currency. To aim at a ratio which would fail to accomplish this for the sake of getting a high price for the council bills would be to starve the currency, injure trade, and invite an ultimate breakdown. As India is debarred from obtaining any fresh silver currency, no difficulty should be placed in the way of her requirements being satisfied by gold. The ratio adopted should, therefore, be one which will encourage the free inflow of gold rather than one which, even if it might attract some gold in a year of unusually large exports, would fail to do so in ordinary times. In the one case Indian trade would have the advantage of a full supply of currency and easy rates of interest; in the other it would be continually harassed by monetary stringency and by a lame and inefficient currency system which would, sooner or later, prove a failure.

The success or otherwise of the gold standard will largely depend on the rupee value put upon the sovereign. The higher the rupee is raised above its bullion value the more difficult will the establishment of the gold standard become. On the value put upon the sovereign will depend not only the extent to which gold is brought into the currency, but also how far it will be allowed to remain in circulation or will disappear, driven out by the overvalued rupee. It is significant that of the immense amount of gold held in India practically none has been tendered to the currency department, even during periods of extreme monetary pressure. What has been acquired has, with a trifling exception, been imported gold.<sup>a</sup> This is not reassuring

<sup>a</sup> Of Rs. 3,430,000 received by the currency department up to June 19 last, only Rs. 42,500 in Bombay and a trifling amount in Calcutta came from gold held in India; the balance was all imported.

as to the result when gold is made legal tender and a sovereign and 15 rupees are supposed to be mutually interchangeable. India is a large consumer of gold, and to undervalue it in relation to the rupee will have the effect not only of discouraging its tender to the mint, but of encouraging the market to supply itself by withdrawals from the currency. The successful establishment of a gold standard will not be promoted by insisting on getting gold too cheap.

Going back to 1893, the conditions then prevailing clearly pointed to 1s. 3d. as the ratio which should have been adopted then; and we can see nothing in subsequent experience to justify the belief that 1s. 4d. is the more suitable ratio now. On the contrary, we consider 1s. 4d. an extreme ratio, which imposes too severe a tax on production and is calculated to injure the trade balance necessary for India's solvency, and that the corresponding ratio of 15 rupees per sovereign, by putting too low a value on gold, will tend to prevent its going into or remaining in circulation, and thereby endanger the success of the gold standard.

We believe 1s. 3d., or 16 rupees for a sovereign, to be a ratio which would not be injurious to India's interests, and under which she would be able to acquire by trade influences the gold necessary to make the gold standard effective. We therefore recommend that the ratio should be altered from 1s. 4d. to 1s. 3d., or to 16 rupees per sovereign instead of 15 rupees.

In making this recommendation we can not be regarded as advocating a depreciated currency, in the true sense of the phrase. We are a long way from the point at which the term depreciation would be appropriate. The rupee at 1s. 4d. is, on the contrary, immensely appreciated, and in urging a change to 1s. 3d. we are only seeking to correct what we consider to be an excessive, arbitrary enhancement.

ROBT. CAMPBELL.  
JOHN MUIR.

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Sterling borrowing in order to acquire gold is so prominent a feature of the government of India's proposals and of other schemes which have been put before the committee that we consider it desirable that the principle of borrowing for such a purpose should be thoroughly examined.

Sterling borrowing is in itself objectionable on the ground that it aggravates the exchange difficulty by permanently increasing the home charges, but there are special reasons besides against borrowing for the purpose of establishing and maintaining a gold standard. If India is unable to acquire gold except by borrowing, that alone would go far to prove her unfitness for a gold standard and her inability to retain gold so acquired. Gold attracted to the currency by trade influences might reasonably be expected to remain in circulation, but there could be no certainty that gold brought in by borrowing would do so; the presumption would be rather the other way, because, short of withdrawing rupees to make room for it (a proposal which has been universally condemned), it is difficult to see how borrowed gold could be introduced into the circulation without creating monetary conditions which would drive it back to England again.

If, however, as we believe, India is able to obtain the necessary gold by means of the trade balance in her favor in the same way as

she formerly obtained her silver currency, why should the expensive and objectionable method of borrowing be resorted to? The only advantage of borrowing would be to hasten convertibility, an advantage which would be gained at the expense of any assurance of ultimate success, or any certainty that the borrowed gold would not begin to disappear as soon as convertibility was attempted, while the disturbing influence on the Indian money markets of bringing in large amounts of borrowed gold would not be wholesome. A measure, on the other hand, under which gold would flow to India gradually, as trade and currency requirements dictated, even if it took several years to introduce into the circulation sufficient to make the standard fully effective, would carry with it a confidence which could never be inspired by the sight of gold forced in by artificial means, while the automatic supply of currency as from time to time required would keep the money markets from either undue plethora or stringency.

Italy furnishes a practical illustration of the result of attempting to establish a gold standard by means of borrowed gold. The Italian Government obtained by sterling loans a large amount of gold for that purpose, but they have not succeeded in their endeavor. They dare not allow the gold they borrowed to go into circulation, because it would at once be exported. At the present rate of Italian exchange the gold, if obtainable, would give a profit of 6 to 7 per cent to send abroad, and, with the foreign exchange so much above the gold point, the gold standard has disappeared.

A further objection to forcing gold into the currency by borrowing is the effect it would have in obscuring the proper ratio between gold and the rupee, the ratio at which a gold currency would be practicable, and the mischievous effect it might have in enforcing for the time a ratio which without the continued support of borrowed gold might prove to be unworkable and would therefore ultimately break down. With 120 crores of rupees in circulation, which must continue to be unlimited legal tender for years to come, the change from a silver to a gold standard is not the simple question of raising so much gold and putting it into circulation at any arbitrary ratio to the rupee which may be chosen. The lower gold is valued in relation to the rupee the greater will be the difficulty of keeping it in circulation and the greater the danger of the undervalued gold disappearing, leaving the sterling debt as the only lasting result of the operation. A gold standard and currency can only be established and maintained on conditions which will permit of gold flowing freely to India in obedience to trade requirements, and any measure which attempts to override these conditions and force gold in by artificial means will break down sooner or later.

For these reasons we are opposed to sterling borrowing, whether for the establishment or the maintenance of a gold standard. Borrowing to support the standard once resorted to, it would be impossible to know when to stop, and the only safe course is not to begin. It is on trade support that the maintenance of the gold standard must in the long run depend, and any saving of delay through borrowing would not be worth the risk of finding, after having incurred a load of sterling debt with its consequent addition to the home charges, that an impracticable scheme had been pursued which when left to its own merits would break down.

ROBT. CAMPBELL,  
W. H. HOLLAND,  
JOHN MUIR.

## II. CORRESPONDENCE RESPECTING THE PROPOSALS ON CURRENCY MADE BY THE GOVERNMENT OF INDIA.

*The government of India to the secretary of state for India.*

No. 70 (finance).]

CALCUTTA, *March 3, 1898.*

(Received March 21.)

MY LORD: During the period which has elapsed since we wrote our dispatch of September 16, 1897, No. 261,<sup>a</sup> our attention has been drawn by circumstances to the pressing necessity of taking active measures to secure the stability of exchange, which was the main object of the policy adopted in June, 1893.

2. Our experience since 1893 has put beyond doubt one of the main principles upon which the legislation of that year was based—a principle which was challenged at the time—namely, that a contraction in the volume of our silver currency, with reference to the demands of trade, has the direct effect of raising its exchangeable value in relation to gold. Before 1893, while the mints were yet open, the value of the rupee as measured in gold continually declined with the decline in the value of silver; but since 1893, although the value of silver as a metal has continued, speaking generally, to decrease, the decrease in the value of the rupee has been arrested. The main difference in the conditions of the two periods was that before 1893 the amount of coin in circulation was allowed to increase automatically so as to be sufficient to meet the demands of trade at its reduced value, while since 1893, this automatic increase being stopped, the value of the rupee has been determined rather by the amount of coinage in circulation than by its intrinsic worth. We are justified in coming to the conclusion that if the measures taken in 1893 had been taken at an earlier date and the increase which took place in the amount of coin in circulation for some years before 1893 had been prevented the rupee would never have fallen so low in value as 16d. It would follow from this that if we could now restore the circulation to the condition in which it was a few years before 1893 and could in some way reverse the increase of circulation which has immediately taken place we would effect the object of raising the value to at least 16d.

3. The scheme of 1893 did actually contemplate, as we shall presently show, this reversal of the increase of circulation effected during the years immediately preceding, but so far as it has hitherto been carried into effect it has merely stopped further increase. The average annual addition to the currency when the mints were open was about 7 crores, of which, however, a part only, perhaps half, was a permanent addition, an amount equivalent to the remainder being removed from the circulation principally for the purpose of conversion into silver ornaments. It was hoped that the stoppage of an annual addition of this magnitude to the rupee currency and the gradual contraction of the currency which always occurs under the operation of ordinary causes, such as the withdrawal of coins reduced below the current weight by wear and tear and the loss or disappearance from circulation of coins, would, in the presence of the increasing demands of a continually expanding trade, suffice within a limited time to remove the effect of such increase of coinage as had taken place within a few years immediately preceding 1893, and thus restore the exchange value of the rupee to 16d.

<sup>a</sup>See Parliamentary Paper C-8667, page 9.

4. It was supposed at first that the process would not be unduly prolonged, but experience soon indicated that the amount of coin to be withdrawn before a rate of 16d could be made operative was very large indeed. The suspension of the secretary of state's drawings in 1893-94 and the consequent withdrawal of about 10 or 11 crores from the circulation proved insufficient, even in the busy season, to maintain the rupee at an exchange rate of 15½d. It soon became evident also that new influence of an adverse nature had been called into play, and that the process of raising the rupee to the desired exchange value might be prolonged, and might be accompanied by fluctuations which, though not nearly approaching those of the past, were yet sufficiently large to cause great inconvenience both to the public in carrying out the operations of trade and to us in the management of the government finances. Immediately after the closure of the mints there was a considerable importation of rupees into India from other countries in which they circulated, though this continued for only a few months, and on the whole there has been since October, 1893, a net exportation of rupees from India amounting, in the case of exportation by sea alone, to a sum in excess of 2 crores. There was probably a return of rupees from hoards into circulation under the influence of the relative cheapness of silver. Speculative influences were also largely brought into operation, reports as to the intended reopening of the mints being industriously circulated. Later, when the effect of these influences had been dissipated and the exchange value of the rupee began to rise toward the level of 16d., another adverse influence arose—the outcome of want of confidence on the part of the public in the future of exchange—in the desire of persons in England to convert their Indian investments (in rupee paper and otherwise) into a sterling form, and of persons in India to remit their savings and profits, and even their investments, to England, while they could do so at a rate of exchange which they were led to believe could not be maintained. The exchange market has been greatly affected by remittances of these descriptions.

5. It is now, therefore, clear that in June, 1893, the volume of the currency was greater than was consistent with the immediate establishment of a rate of exchange of 1s. 4d. the rupee; and it will be borne in mind that, even after the mints were closed, a further increase was made by the acceptance and coinage of the silver of the exchange banks which was in transit. This cause of difficulty, however, diminishes under the operation of the causes mentioned in paragraph 3 every year during which the mints remain closed, and it is certain that we are now much nearer a volume of currency consistent with the rate named than we were in 1893.

6. But our progress toward that rate has been greatly affected by the entirely abnormal state of trade during the last year. The exchange value of the rupee almost touched 16d. in the cold weather of 1896-97, and if trade had been normal, instead of being injuriously restricted by the effects of plague and famine, it is possible that it would have been maintained throughout the year at a rate more or less approximating to that level.

7. The fact that exchange attained so high a rate as that which has prevailed since December last, immediately upon the setting in of more normal conditions of trade as soon as the famine came to an end, seems to us still further to indicate that, apart from the adverse circumstances which we have specified, the tendency of the exchange value of the rupee is to rise under the influence of the causes speci-

fied in paragraph 3 of this dispatch, and, though the rupee has recently somewhat fallen, we believe that this is in some measure due to the continuance of the plague in Bombay, which is undoubtedly affecting adversely the trade of that port. In our opinion, therefore, there is some reason to think that, if we could only pass that stage of distrust which appears the moment exchange approximates to 16d to bring into operation influences which interfere with the actual realization of that rate, we might expect it under normal conditions of trade to attain the level at which gold would be tendered under our notification of June 26, 1893, and the introduction of the gold standard would become practicable.

8. It is no doubt possible that gold may be tendered in the early future, though the course of events during the month of January and since the passing of Act II of 1898 (amending the Indian paper currency act) leads us to think that it is not very probable. In any case it is extremely unlikely to be presented in such quantity as to lead automatically to an accumulation of gold sufficient for a reserve; and, under these circumstances, we believe that it will be wiser not to pursue a course of inaction which may be prolonged indefinitely and that it is desirable in the interests of the State and of the mercantile community to terminate the period of transition without further delay. To the State it is really cheaper in the end to acquire a reserve of gold by borrowing and thus keep the exchange value of the rupee at a steady level of 16d. than to bear for years the burden of expenditure entailed by the lower level of the rupee in the discharge of our sterling liabilities in London in the issue of the pay of the British army in India (that being fixed in sterling) and in the payment of exchange compensation allowances. To the mercantile community we are under some obligations to effect the prompt establishment of that fixity of exchange which was the main reason for the closure of the mints in 1893. It is not desirable that their legitimate business transactions should be hampered and embarrassed by the uncertainty of exchange, nor is it good for the country that the want of confidence in the stability of the rupee should discourage the investment of capital in India, while all available capital is remitted to England whenever the exchange value of the rupee rises to a high level. A prolongation of the period of transition may also be accompanied by recurring periods of stringency in the money market, and by inducements to speculate in exchange operations to the injury of legitimate trade. For these and other reasons, and in view of the length to which the transition period of our currency policy has already extended, we are of opinion that we ought not to wait longer for the attainment of our object by the gradual operation of the causes described, however certain we may be that they would in the end produce the desired result and that we ought at once to take active steps to secure the early establishment of a gold standard and a stable exchange.

9. Our first endeavor should be the accumulation of that reserve of gold which, as was pointed out by Lords Farrer and Welby in their minute appended to the report of the 1893 commission, is a necessary preliminary to a gold standard. They thought it possible that this reserve might be automatically attained; but of this we have little hope without longer waiting than we consider advisable. We know now that one of the main reasons of this failure is that our rupee circulation had before the closing of the mints been increased to such an extent that it fully and more than fully supplied all the demands of trade and allowed no room for any further addition in the form of

gold. We consider, therefore, that the remedy for this state of things is to remove from circulation as money so much of the increases which were made to the circulating medium immediately before 1893 as we may find to be redundant. The necessary condition of a fixed rate of exchange between two countries is that when the currency of one of them becomes redundant as compared with that of the other, the redundancy may be relieved by the withdrawal for a time of the excess coin, and we wish therefore to reach the condition in which our circulating medium (using that term in its widest sense, as embracing not only active circulation from hand to hand, but the inactive reserves of banks and of the treasury and the like) is not composed wholly of silver coin which has no equal value outside the country, but contains also a margin of gold which is capable of being used elsewhere as coin and which will therefore in natural course flow to where it is most wanted. Our total rupee currency is estimated to be at present somewhere about 120 crores, to which we have to add 10 crores of fiduciary circulation of currency notes. This amount may therefore be said to have been ascertained by experience to be much more than is consistent with a maintenance of a rate of 16d. in the season of inactive trade, and to be a little more than is consistent with that rate at the time of active trade.

10. It is impossible with any exactness to say, and it can only be ascertained by actual experience, by how much this rupee circulation has to be decreased in order to remove its redundancy. (It must be remembered that redundancy is a relative term; what is sufficient for a rate of exchange of 14d. the rupee is necessarily redundant for a rate of 16d. We use the term in this dispatch with reference to a rate of 16d. the rupee.) But some considerations point to the amount being within quite manageable limits. For example, there are 24 crores, more or less, of currency notes in circulation, including the amounts held in our own treasuries. If we could imagine that amount of circulation at present existing in the form of currency notes suddenly converted into £16,000,000 in gold, it seems impossible that Indian trade should be able to get on without having part at least of that amount held in actual circulation; in other words, it would not be possible for that amount of gold coin to be remitted out of the country without the value of the rupee being forced up to a point which would arrest the stream of export. If this is the case, 24 crores of rupees is the outside limit of the amount which it might be necessary to convert into gold coin in order to introduce a stable exchange of 16d., accompanied by an actual (active or inactive) circulation of gold at that comparative value; and it is more than probable that the amount required may really fall far short of this.

11. The mere reduction of circulation might be carried out in the same way in which it was effected in 1893, namely, by abstaining from drawing council bills until we have an accumulation of, say, 20 crores in excess of our ordinary balances. But this procedure would be both costly and, as we believe, ineffective. In the first place the permanent locking up of 20 crores of rupees would cost us the interest on that amount, or on the amount of gold borrowed in England during the suspension of drawings, and in the second place the existence of this accumulation of silver coin would be a perpetual menace to the exchange market and would entirely prevent any confidence in the future of the rupee. We must not only withdraw the amount from circulation, but we must show by the method we adopt that our intention is that it should cease to exist in the form of coin, and that its

place as coin is to be taken by gold. Our proposal is therefore to melt down existing rupees, having first provided a reserve of gold both for the practical purpose of taking the place of the silver, and in order to establish confidence in the issue of our measures.

12. With reference to the proposal to melt down rupees, we desire to invite your lordship's attention to the fact that an actual reduction of the silver currency was an integral part of the proposals made by the government of India in their dispatch No. 160, of June 21, 1892, as will be seen by a reference to paragraphs 10 and 12 of the minute of the same date, which sketched the method which the government proposed to adopt for the introduction of a gold standard in India. Those proposals were ultimately adopted, and the first step to give effect to them was the passing of Act VIII of 1893, closing the mints. Just before he quitted office as financial member of council, Sir D. Barbour very strongly urged the adoption of this measure in paragraphs 13 and 14 of his minute of October 16, 1893, which formed an inclosure of dispatch No. 357 of November 1, 1893. The government of India again urged the same measure in the telegram of December 30, 1893. It will thus be seen that this proposal is no new thing, but is one which has from the first been advocated by the government of India.

13. The annual consumption of silver in India may be put down at about Rx. 6,000,000 worth. The actual figures of recent years are as follows:

	Value of net import of silver.
1894-95.....	Rx. 6,329,200
1895-96.....	6,582,200
1896-97.....	5,586,000
1897-98 (9 months only).....	5,472,300

We ought to be able to supply nearly the whole of this market, our rupee standard (0.916) being good enough for most of the purposes for which silver is imported into India, and thus in a single year we might calculate upon disposing in this way of 10 crores of rupees of coined silver, being the equivalent of the above value and reducing by this amount the actual rupee circulation of India. As bearing on the question of our finding a market for the bullion obtained by melting rupees, we may mention that nearly the whole of the silver consumption in India before 1893 was supplied by melting down our rupees, the amount of fine silver passing direct into consumption being comparatively small.

14. We do not regard this measure as having any important permanent effect on the silver market, even if we were under any obligation to give weight to such considerations. The annual production of silver is valued at £18,000,000, while our sales would be limited to 6 crores' worth, or say £4,000,000 a year, and would probably last over only a year or two.

15. We may observe that our proposed selling of silver, in addition to its direct effect on the rate of exchange, would also have a not unimportant indirect effect, inasmuch as the operation would meet the demand for silver in India, and thus increase for the time the balance of trade that has to be discharged by council bill remittances.

16. Our first step, however, is, as already indicated, to obtain a reserve of actual gold coin, and this we can only do by borrowing in England. Our proposal is that Her Majesty's Government should move Parliament to pass an act giving the secretary of state power to borrow up to a maximum of £20,000,000 for the purpose of establishing a gold standard in India. It is possible that the whole of this amount may not be required, but we believe that the possession of the power to push our efforts in the direction we indicate until our object is attained will greatly enhance the effect of our first more limited operations. The amount which may actually be required in order to establish exchange steadily at the level of 1s. 4d. the rupee can, as we have already said, only be determined by experience, and we have named as the maximum to which borrowing powers should be taken an amount which, we may take it, is certainly sufficient, and the interest on which the revenues of India can afford to pay. We think it most desirable that the maximum should be so fixed as to avoid any risk of having to move Parliament a second time for further borrowing powers, and the act should provide that the borrowing shall be in such installments as may be deemed desirable by the secretary of state, and should require the secretary of state to ship to India immediately in sovereigns the amounts borrowed under the powers.

17. It will be desirable to keep the powers under the proposed act distinct from the secretary of state's general borrowing powers, and the operations under them should be kept distinct from those under the ordinary borrowing powers and during the continuance of the transactions held in separate account.

18. We recommend that, as soon as the statute is passed, your lordship should at once borrow and ship to India £5,000,000 in gold. The sovereigns would be placed by us in our reserve treasuries, and held ready for such use as events may show to be expedient.

19. The first use to which this gold would be put would be to supply the deficiency in our balances caused by the sale of silver. We may reckon that our sale of 10 crores of coined rupees would return to our treasuries only Rx. 6,000,000, and the balance, Rx. 4,000,000, would have to be made up out of the gold we have in hand, and would absorb about £2,700,000 of it. The result of the first year's operations would therefore be, omitting altogether any effect it might have in diverting gold toward India in ordinary course of commerce (that is, under conditions the same as those now existing), that Rx. 6,000,000 of existing rupee currency would be taken out of public use and paid over into our treasuries, instead of being returned into the circulation in payment to the importers of silver; and that a further sum of Rx. 4,000,000 would cease to exist as coin forming portion of our balances, being replaced therein by £2,700,000 held in gold.

20. Suppose the operation to be repeated a second year; the amount of current circulation available for trade purposes would be reduced by Rx. 12,000,000, and the amount of coined rupees in our possession changed into the form of gold would be £5,300,000, giving a total reduction of silver rupee currency of 20 crores; but the considerations we have above stated indicate that before this point is reached the exchange rate would have attained the level of 16d. or even higher, and sovereigns would have flowed into the country to fill up the deficiency of current circulation outside our own balances, caused by the withdrawal of silver coin. It is not our intention to part with any of the gold in our possession until this condition of things is reached, and as we can, under the law, always pass it into the currency reserve we shall find no difficulty in retaining it.

21. When we have reached the stage in question the sovereign will be a recognized coin of the Empire, in use in its chief cities at least, and as long as this condition can be maintained the exchange will be stable at about 16d. We always have it in our power to carry the operation even further by withdrawing a still larger quantity of silver and replacing it by gold coin, and we recognize that circumstances may arise in which such a measure may be forced upon us. But our present intention is rather to trust to the automatic operations of trade. The amount of coin required for the needs of commerce increase every year, and, as we permit no increase in the amount of silver coin, we may reasonably expect that the effect of the increasing demand for coin will be to raise exchange to a point at which gold will flow into the country and remain in the circulation of it. The position will thus become stronger and stronger as time goes on, but at the beginning at least gold will not be in circulation in the country to more than the extent necessary to secure stability of exchange. The mass of the circulation will be a silver circulation, maintained at an appreciated value (just as it is at present), and we can be content to see gold coin remain little more than a margin, retained in circulation by the fact that its remittance out of the country would create a scarcity of coin which would have the effect of raising the exchange value of the silver rupee in such manner as to bring it back, or at the very least to stop the outward current of remittance. We shall have attained a gold standard under conditions not dissimilar from those prevailing in France, though not a gold circulation in the English sense, and this last may possibly not be necessary at all.

22. We can not help thinking that the determination of the government to take active steps in the manner we have stated will have the effect of reversing the influence of the distrust in the future of the rupee, which at present not only prevents the importation of gold to meet the demands of trade, notwithstanding the much higher rate of discount and interest prevailing in India, but also keep sterling capital out of the country. If this distrust were once overcome by the sight of the government actually importing gold and taking measures at some cost to itself to introduce gold into the circulation of the country—that is, into the reserve or marginal circulation, even if it does not find its way into active circulation—we believe that before the Rx. 12,000,000 has been withdrawn from the public circulation gold will have flowed in to take its place and the current circulation will have reached the condition in which it adapts itself to the fluctuations of the trade demand upon it by the process of transfer of coin from India when it is redundant and to India when it is deficient.

23. In the circumstances in which India is placed this ebb and flow of gold would probably take place through the operation of government remittances. The government of India would remain under the obligation to remit £16,000,000 or £17,000,000 to England in every year. The real remittance has to take place in exported produce, of which the accounts are adjusted through council drawings. It is our assumption throughout that this balance of trade will continue, and that it is consistent with the maintenance of the exchange value of the rupee at 16d., and past experience, in our opinion, fully warrants this assumption. The outflow and inflow of gold will be merely the adaptation, in point of time, of the drawings of the secretary of state to the adjustment of the annual balance of trade; that is to say, the gold may be expected to flow from England to India during any period in which the demands for trade remittance are in excess of the

amount made available by council bills, and in the opposite direction when council bills are in excess.

24. The cost of the proposed measures remains to be estimated. The interest on a sterling loan producing £20,000,000 would be £550,000 a year; and this is the maximum charge for interest which we contemplate having to incur. But we have said that it will not be necessary to borrow so much as £20,000,000 to effect our object, and that very probably the first instalment of £5,000,000 will prove to be sufficient. If it should, the interest charge will be about £130,000 a year.

The question of the manner in which the loss on the melting down of our rupees will be entered in our accounts—that is, whether it will be shown as a charge to revenue—is a subordinate matter. We have indicated above that, for the present at least, we propose to keep the transactions in separate account. What we shall actually lose will be the appreciated value of the rupees which now form a portion of our balances.

25. We have been led by public discussions in England to believe that Her Majesty's Government might be willing to entertain the proposal to give assistance to India, in some shape, toward the attainment of the object we have in view. While we can not plead inability on our own part to carry our proposals into effect, at any rate, so far as the stage to which at present we propose to confine them, we think it our duty to represent that the establishment of a gold standard in India is a matter of imperial concern, and that India may fairly claim that the whole burden should not be put upon her. We would urge that Her Majesty's Government should contribute not only in material assistance, but by creating that greater confidence which will undoubtedly be the result of their publicly assuming a share of the liability.

26. We believe that the effective introduction of the gold standard will be welcomed by the banking and mercantile communities and by the public of India. It has, indeed, been pressed upon us strongly by the Bengal and Madras chambers of commerce (copies of whose letters will be found among the inclosures) and in the press that the time has arrived to put an end to the uncertainty and fluctuations of exchange; and the discussion in the Bombay Chamber of Commerce on February 9 indicates that the members of that chamber share this opinion. We think, therefore, that we may expect their support in the measures we propose, though neither the Bengal chamber nor the Bombay chamber has declared in favor of any particular scheme to secure the object, and the Madras chamber has supported with some modifications the proposals of Mr. Lindsay to which we allude below. Accordingly, we strongly urge that no time should be lost by Her Majesty's Government in giving effect to our proposals.

27. Evidence of the widespread concurrence in the feeling to which the chambers of commerce have given voice will be found in the number of schemes which have been proposed to attain the object aimed at in our present proposals and in the interest evinced in the discussion of those schemes. We gave careful consideration to all such schemes and suggestions as promised any practical solution of difficulties before we decided to adopt the scheme we have now recommended to your lordship; and we think it well to allude to the two best known of them.

28. The first of the two is one recently republished in this country in association with the name of Mr. A. M. Lindsay, and is the type of several others, all of which have as their object the establishment of

a gold standard without any actual gold currency. It is, briefly, that, in addition to offering to receive gold in exchange for rupees at the rate of 16d., the Government should also offer to receive rupees in exchange for gold at a somewhat lower rate, sterling drafts on London being issued in exchange for rupees. As it may not have been made public in England in full in its most recent shape, we print it as an inclosure as it appeared in a recent Indian newspaper under, we believe, Mr. Lindsay's own authority. This scheme, like our own, operates largely through the withdrawal of rupees now in circulation, and though it has much to recommend it, our main reason for deciding not to adopt it is that it would involve us in a liability to pay out gold in London in exchange for rupees received in India to an indefinite extent.

Even if the ultimate liability were not greater than under our own scheme, still its extent, from time to time, would be quite beyond our control, and we can easily conceive that we might find ourselves unable to discharge it on certain quite possible suppositions as to the market rate of exchange and as to the comparative redundancy of the existing volume of the rupee currency. Mr. Lindsay, it appears to us, does not give sufficient weight to one fundamental necessity of our position, namely, that we must remit in the contrary direction to that in which the offer suggested by Mr. Lindsay would be operative an annual sum of about £17,000,000 to discharge our sterling liabilities. In addition to his anticipation that the Indian money market could not support the withdrawal of the number of rupees which would suffice to dangerously reduce the gold reserve, Mr. Lindsay relies on the general confidence in the future stability of exchange which the promulgation of his scheme would induce, as being certain to prevent the demand for gold in London rising to a sum which would occasion us any inconvenience; but we think that such confidence is much more likely to be established by the accumulation of a strong gold reserve in India than under his plan, which contemplates the keeping of the reserve in London, and we prefer to establish confidence by that measure without involving ourselves in a liability we might possibly not be able to discharge. Instead of lengthening this dispatch by further remarks on Mr. Lindsay's proposals, we append, as an inclosure, a memorandum by our honorable colleague, Sir J. Westland, which discusses the scheme in some detail.

29. The other scheme we wish to mention is that of Mr. L. C. Probyn, contained in a volume of papers published in 1897 by Effingham Wilson. Mr. Probyn proposes to establish the reserve of gold in India, but in order to prevent the gold passing into circulation and disappearing into hoards (an object which Mr. Lindsay also has in view), he proposes that gold should not be coined, but that it should be kept in stamped bars of a high value. We do not think it either desirable or necessary that gold coins should, until the gold standard has for some time been established, pass to any appreciable extent into general circulation; under the scheme we have above proposed, the bulk of the currency in circulation, and practically the whole of it outside the presidency towns—in which the banks might, like ourselves, hold reserves in gold coin—would continue to consist of rupees and currency notes. But we do not think it necessary, in order to secure that result, to refuse to have legal-tender gold coins of a convenient value. We are, moreover, not satisfied that there would be any smaller disappearance into hoards of the gold bars, which would be easy to subdivide, than of gold coins. We are also of opinion that

the simpler and more direct a monetary standard can be made, the more acceptable it will be to the public. We think that the only state of things which can be called a thoroughly satisfactory attainment of a gold standard is one in which the gold coins which represent our standard are those also which are good for payments in England.

30. At the same time, if experience should hereafter indicate that there is any advantage in having the gold standard represented by a coin or piece of bullion too large to be used for ordinary monetary purposes, the course suggested by Mr. Probyn, or one like it, is still open to us. It will be observed that we do not contemplate the actual issue of gold coins by the Government, either for treasury purposes or in payment of currency notes, until the measures we have taken actually result in the establishment of the value of the rupee at 16d., and the use of sovereigns to some extent, however small, as a permanent part of the circulation. There is, therefore, no necessity for our immediately determining whether the gold coin to which we shall give the quality of legal tender (as opposed to exchangeability secured by our own readiness to deal in them at our treasuries at a stated value) should be the sovereign or some other coin, being a multiple thereof; for example, the £5 coin of England. But the transactions of the people of this country are for the most part on so small a scale that even the sovereign would be too high in value for any but casual use, except in the centers of trade; and a coinage composed like that of France, of gold coins bearing their intrinsic value and silver coins bearing a token value, would, for any purpose of actual use in India, contain a very much smaller proportion of gold than the English or French currency. Our present belief is that, even with the sovereign as the standard coin, the amount to be procured and passed into circulation is not so large as to be beyond our means; and we hold that what we ought to aim at, and what we have every prospect of successfully attaining, is the introduction of the English sovereign itself as a current coin, and that gold bars of high value, such as Mr. Probyn proposes, which are not adapted for use in any sense as an actual circulating medium, are not a satisfactory form of the possession of a gold standard.

We have, etc.,

ELGIN.  
G. S. WHITE.  
J. WESTLAND.  
J. WOODBURN.  
M. D. CHALMERS.  
E. H. H. COLLEN.  
A. C. TREVOR.

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INCLOSURE 1 IN No. 1.

*The secretary to the Bengal Chamber of Commerce to the secretary to the government of India, finance and commerce department, dated December 22, 1897.*

In their dispatch of September 16 last, No. 261, to Her Majesty's secretary of state for India, the government of India repeatedly stated their adherence to the policy of establishing a gold standard as the monetary system of India, and expressed their opinion in various places in the dispatch that the transition period between the rejection of silver and the adoption of the gold standard was drawing to a

close, and that the gold standard was on the eve of being effectively established.

2. This declaration of policy has been carefully noted by the mercantile community, which is interested, above all things, in the establishment of the fixity of exchange. The committee of the Bengal Chamber of Commerce, however, are unable to perceive the grounds for the confidence expressed by government that the period of transition was near its end. So far the experience of the three months which have passed since the dispatch was written would not seem to point to the speedy attainment of the end in view, for exchange has fluctuated violently, and there has been an appreciable decline in the sterling value of the rupee, followed, as the committee write, by a very smart rise.

3. The mercantile community share the desire of the government of India that the period of transition should not be unnecessarily prolonged; that the opportunities for speculation in exchange, of which the fullest advantage is being taken in some quarters to the great detriment of legitimate trade, should be reduced or removed. The position is, briefly, that the government have definitely abandoned the silver standard with a view to the establishment of a gold standard, and that for the moment there is, as stated in paragraph 25 of the dispatch now under reference, no currency system at all in India. The government have waited for more than four years since the closing of the mints in the hope that the gradual contraction of the silver currency would be accompanied or followed by the replacement of rupees by gold. This hope has been disappointed, and never more plainly than at the moment when the government expressed their greatest confidence in the success of the policy of waiting.

4. It is clear that the policy of waiting may involve an indefinite prolongation of the period of transition, with all its trouble and harassment to trade. While it is entirely inexpedient that the present position should continue for a day longer than can be helped, the committee would deprecate any sudden action being taken by government which would result in a mine, as it were, being sprung on the mercantile and banking communities, and are induced to inquire whether government have in contemplation any measures for the introduction of the gold standard; and, if so, whether they will state what they are, with a view to their discussion, and also with a view to the relief of the minds of bankers and traders, whose operations in present circumstances are surrounded with the greatest difficulty and uncertainty.

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INCLOSURE 2 IN NO. 1.

*The chairman of the Madras Chamber of Commerce to the secretary to the government of India, finance and commerce department, dated January 29, 1898.*

The attention of this chamber has been closely directed to the recent currency proposals of the government of India and to what is known as the "Lindsay scheme" for establishing a gold standard, and I have now the honor to lay before the government of India a brief statement of the views of this chamber.

It is, the chamber believes, generally, if not universally, admitted that there is urgent necessity for some prompt action being taken to

remedy the present deplorable state of affairs, which involves periodical spasms and convulsions in the money market—which may recur more frequently and with even greater severity in the future—and a steady withdrawal of capital from India. In the hope, therefore, that an expression of its opinion may be of some use to the government in the consideration of what remedy ought to be applied, the chamber ventures to address you in support of its opinion that the remedy lies in the establishment of a stable minimum as well as a maximum exchange.

The shortcomings or evils of the present system, under which a maximum exchange has been fixed, with no minimum, have during the past year, and especially during the last few weeks, been brought home to the mercantile community very vividly. Under that system it has been seen that exchange can be screwed up to 1s. 4d. temporarily at times, like the present, of exceeding tightness and dearth of money; but instead of this resulting, as it should do, in capital being attracted from England, where it is cheap, to India, where it is dear, the exact opposite is the case, and India's troubles are accentuated, because everyone hastens to send capital home whilst 1s. 4d. is still procurable, and no English capitalist will send out one penny to India at 1s. 4d. in the face of eventually having to get it back probably at a much lower rate. If India is to be saved from ruin, if she is to prosper, cheap capital is absolutely necessary to develop her great resources.

Mr. Lindsay's scheme is, in the opinion of this chamber, sound and would work; but to make it work easily confidence in its stability is essential, and to insure this the chamber does not consider that a gold reserve of 5,000,000, to be kept in the Bank of England and drawn against, is sufficient. The chamber would suggest that the reserve should be at least 10,000,000, but it does not see why the expense in connection with the reserve should not be reduced by holding part of it in consols, on which gold could always be borrowed cheaply in an emergency, though the chamber does not believe the necessity would arise.

As regards council bills, these could still be offered when exchange was above the proposed minimum of 1s. 3½d. When, or if, they could not be disposed of at this rate, the government of India would obtain its sterling requirements by buying from the gold standard office at 1s. 3½d., paying in rupees. If from this or other demands the gold reserve fell below safety point, say, 7,000,000, the rupees received by the gold standard office would be melted, sent home, and sold for gold to replenish the reserve, the loss on the transaction being only temporary, as explained by Mr. Lindsay.

If one could imagine some vast quantity of rupees, say 25 or 50 crores, being tendered at 1s. 3½d., this scheme might break down through the impossibility of selling the melted silver to such an enormous extent. But where are these 25 or 50 crores to come from? If they existed it would indicate an excessive redundancy of currency. But the chamber does not believe in the possibility of even 10 crores being tendered. When once confidence was established, as the chamber thinks it very soon would be, the process would be reversed, capital would flow to India, gold would be tendered in excess of the 10,000,000 reserve, the proceeds of such excess gold would be used to buy silver to be sent out to India to be coined, and India would rejoice in the cheap capital to develop her resources which she so greatly needs.

The chamber does not overlook the fact that Indian producers will be heavily handicapped in competing with silver-using countries by a fixed 1s. 4d. rupee; but to attempt to fix a lower standard does not seem to be within the limits of practical politics, and, taking everything into consideration, the chamber thinks that the advantages of a stable rupee to India generally greatly outweigh those which producers obtain from a fluctuating but occasionally lower level of exchange.

The chamber is in favor of an import duty on silver, either fixed or on a sliding scale, so as to bring the intrinsic value of the rupee in India nearer to its bullion value, and to check, especially at first, the competition between silver and rupees.

In conclusion, I have the honor to state that the chamber is convinced of the supreme importance of securing a stable exchange and thereby attracting capital to India, and advocates the most careful consideration of Mr. Lindsay's scheme, which, the chamber believes, might, in principle, though possibly with some modifications, be successfully adopted.

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INCLOSURE 3 IN No. 1.

*Extract from the Pioneer, dated January 6, 1898, describing Mr. A. M. Lindsay's currency scheme.*

The name of Mr. A. M. Lindsay has been for several years past associated with a plan for the establishment in India of a gold standard without a gold currency. The plan is based upon the authority of Ricardo, and Mr. Lindsay also claims that it is in essence identical with the plan proposed by a Parliamentary committee in 1804, of which Pitt, Fox, and other statesmen were members, for regulating and adjusting exchange between England and Ireland. A gold currency, it is argued, is not required for India, where gold coin, if put into circulation, would soon disappear into hoards or be converted into ornaments. Even if it were otherwise, it is unnecessary to say that the introduction of a gold currency except as the outcome of the endeavors of a great many years—perhaps of a generation—would be a task beyond the powers of the government of India. The problem to be solved is how to introduce a gold standard, and thus secure a fixity of exchange between India and other countries possessing a gold standard, without providing gold coins for current circulation. To this problem Mr. Lindsay has applied himself, and in view of the declarations of the government of India in the currency dispatch of last September and the recent letter from the Bengal Chamber of Commerce Mr. Lindsay's plan and arguments will form a useful and opportune contribution to the discussions on this important question. Mr. Lindsay condemns as a half measure Sir David Barbour's proposal to link the Indian and English systems by the receipt of gold at a certain rate, because the proposal did not include the further measure, essential to complete the link, of making the rupee currency convertible into sterling money at a corresponding rate.

Sir David Barbour's idea—though he never spoke with any great confidence of its fulfillment—was that to refuse to supply fresh currency at a lower sterling price than 1s. 4d. might not only raise its value to that point, but also create such a large demand for additional rupees at that price as would enable India in a brief space to accumulate in this way a supply of gold sufficient to establish a gold cur-

rency. Further restrictive measures were contemplated if this policy should prove ineffective. In that case, said Sir David Barbour, the remedy would lie in the contraction of the rupee currency—an operation which, he thought, would not be costly if spread over a number of years. Mr. Lindsay asserts that, though it is true that no active contraction of the currency has actually been undertaken by Government, there is no good reason to suppose that the result would have been more effective than the prolonged refusal to increase the currency. If starvation for four and a half years, coupled with the reduction of council drawings and with heavy borrowing in London, have failed to create confidence and to attract gold at the price offered, what assurance is there, he asks, that the actual contraction of the currency would be more successful? The error underlying such proposals is that it is not recognized that they do not apply a remedy which is suited to the disease; they do not give definite fixity and stability of exchange, and they do not inspire confidence. Such being Mr. Lindsay's arguments against the proceedings and proposals of the government of India, we may now state, in his own words, his own plan for inspiring confidence and securing a fixed rate between gold and the rupee. The plan which, as we have said, is adopted from the Irish currency report of 1804, is as follows:

PLAN FOR ESTABLISHING A GOLD STANDARD ON AN ECONOMICAL BASIS.

1. Five to ten millions sterling should be raised in London by a long-term loan (say fifteen years' currency), and should be deposited in the India Office or the Bank of England. The fund might be styled the "gold-standard reserve," and the office dealing with it might be called the "London gold-standard office."

2. It should be announced that the London gold-standard office will be prepared to sell to all applicants rupee drafts for sums of 15,000 rupees and upward in exchange for sterling money at the rate of 1s.  $4\frac{1}{6}$ d. per rupee. These drafts should be drawn on two offices to be opened either in the Indian mints or in the Calcutta and Bombay Presidency paper-currency offices. These offices might be styled the "Indian gold-standard offices." The drafts should be made payable on demand if there are rupees available in the Indian gold-standard office. If not, the drafts should be drawn at a currency affording time for coinage in India of silver bullion purchased in London with the sterling money. This currency might be shortened were the paper currency department authorized, as formerly, to issue notes against the silver bullion on its arrival in India.

3. It should be announced that the Indian gold-standard offices will be prepared to sell to all applicants sterling drafts on the London standard office payable on demand, in sums of £1,000 and upward, in exchange for rupees at the rate of 1s.  $3\frac{3}{4}$ d. per rupee.

4. All rupees received by the Indian gold-standard offices should be held in these offices to meet the rupee drafts drawn by the London gold-standard office.

5. All gold received under notifications No. 2262-4 of June, 1893, should be made over to the Indian gold-standard offices on their requisition in exchange for rupees at the rate of 1s. 4d., and should be sent by them to the London gold-standard office.

6. If the gold-standard reserve should decrease at any time to "apprehension point," i. e., show a likelihood of becoming exhausted, it would indicate that the rupee currency was seriously redundant or,

in other words, that there were too many rupees in circulation; and it would be the obvious duty of government to curtail the currency. They should take the step contemplated by the Dutch Government in 1884, and melt a portion of the rupees, held in the Indian gold-standard offices, dispatching the bullion to London for sale there for sterling money, which should go to strengthen the London gold-standard reserve. The loss on the operation would not necessarily be permanent, as it could be recouped afterwards by buying silver and coining it.

Even these sales of silver might prove to be insufficient to preserve the gold-standard reserve from extinction, and in such an event it would be necessary to strengthen the fund by borrowing further on a temporary footing.

7. The scheme should be started shortly before or during the early part of the busy export season, say in January or February.

8. Sales of council bills might be continued on their present footing, although it would be desirable to insure more competition for the bills.

#### THE PRINCIPLE OF THE SCHEME AND ITS IMPORTANT FEATURES.

The essential principle of this scheme is that the sterling and rupee currencies shall be interchangeable at approximate rates, and that the rupee currency shall be made convertible into sterling money in a manner that will prevent the use of gold as money in India. It would be quite in keeping with this principle to make rupees convertible into gold bars, but for many reasons, specified in a separate paper, it appears preferable to make the rupees convertible into sterling drafts on London.

The scheme is identical with the plan followed for half a century with unvarying success in fixing the value of the Scotch currency, and it differs little from the legislation adopted by England when last effecting a change of standard. It resembles somewhat the practice of Holland, where gold is given freely for export but is granted very sparingly for local payment purposes, and it is analogous to the Java system, as the gold-standard office will buy and sell rupees much in the way the Netherland Bank deals with guilders that come from Java. There is also extreme economy of gold in the Canadian system, but a still better insight into the nature of the scheme can be had by watching the manner in which exchange between Calcutta and Bombay is kept within small limits. It costs, say, one-half per cent to send specie from the one city to the other, and as the balance of indebtedness between the two places is constantly changing, the exchange, if unprotected, would fluctuate up to that limit, whereas the fluctuation never exceeds 1 to 1½ annas per cent, because the currency office at each place is prepared to sell on the other at these rates to all applicants for large transfers.

It will be observed that the schemes call for little change in existing currency arrangements. All that was done in 1893 by way of regulating the quantity and value of the rupee currency was to make rupees available to all applicants in exchange for gold or sovereigns at the rate of 7.53344 grains troy of fine gold or at 1s. 4d. per rupee, and all that is now proposed is to supplement this arrangement and complete the regulation of the currency by making in return rupees convertible into sterling money at a slightly lower rate. Currencies only work smoothly and inspire confidence when regulated by unerring automatic machinery. Under the provision of 1893 the rupee currency will expand automatically, and it will be impossible for exchange to

exceed 1s. 4d. plus import charges on gold. All admit this, and it must be equally clear that, provided the government of India are willing and able to meet the interest charge involved, it is as certain as any proposition in Euclid that the proposed provision for conversion of rupees into sterling money will enable the currency to contract automatically in accordance with the wants of trade and will prevent exchange dropping below 1s. 3½d. India's currency will be linked with England's, exchange will be confined within convenient limits, and the standard of value will be the quantity of gold equivalent to 1s. 4d., say, 7.53344 grains troy of fine gold.

Mr. Lindsay thinks that it will also be conceded that no other plan has yet been devised of conferring upon India an effective gold standard on a more economical footing. In order to institute a gold currency, gold is required to meet, first, demands for gold coins in the active circulation (notes are distrusted in India, and handy gold coins of full metallic value will be much in request); second, demands for speculative purposes; third, demands for hoarding (a handy coin of full value will be preferred to silver coins bearing extrinsic value); fourth, demands for export of currency.

Under the plan proposed the demand for gold in connection with the currency will be confined to demands for export. None will be used in the active circulation, and as coins in current use are preferred for hoarding demands for hoards will be small.

The only expense or, rather, liability to be incurred will be the interest on the gold-standard reserve, and against this there will be, first, the saving in exchange on council bills, compensation allowance, and on the pay of the British soldiers; second, the profit of 2 per cent on the resale at the maximum price of the rupees purchased at their minimum price, 1s. 3½d.; third, the profit (50 per cent or more at present) on the sale of new rupees.

Short-lived demands for conversion of rupees into sterling money will yield a profit of 2 per cent, and the more of such demands the better. It is only a large and prolonged redundancy that could exhaust the gold-standard reserve and entail extra interest expense. It is, therefore, important to ascertain how much currency India can spare for export at any one period, and it must be confessed that it is very difficult to form any approximate estimate. There is, of course, a self-adjusting limit to the export of currency, and it will be admitted that the facility of conversion afforded by the gold-standard offices will insure the corrective being applied with special promptitude. In reviewing these proposals in the *Economic Journal* of December, 1892, Prof. H. S. Foxwell, while acknowledging that, next to bimetallism, this was the best scheme yet devised in the interests of India, said it would hardly survive a continued adverse balance of trade. (The gold-standard reserve then proposed was £5,000,000 only.)

The reply to this is that the scheme includes the orthodox corrective of an unfavorable balance of trade, i. e., a provision for the transfer of currency from the debtor to the creditor country. The rupee currency will be automatically contracted at such times, and the question is, How much contraction of this kind could the Indian money markets bear without forces being put in motion that would rectify the balance of trade and call for the return of the remittances? The experience of the second half of 1893 is no criterion, because the remedial machinery was not then in operation. In estimating the utmost possible extent of a foreign drain one must look to the balances of the presidency banks, which contain all the funds likely to be tendered

for conversion into sterling money, remembering that these funds increase steadily when trade shows an adverse balance, and the problem is to fix upon an outside limit beyond which these banks could spare no further funds without raising their rates of interest to a height that will depress prices and create a demand for return of the currency exported. It is difficult to bring currency back unless there is confidence in the future of exchange, but given conditions that will inspire confidence, Mr. Lindsay estimates that £5,000,000, assisted with a prohibitive duty on silver, or £10,000,000 without such assistance, or, say, 7½ and 15 crores, is more than India can spare at any period.

#### EXPLANATION OF MINOR FEATURES OF THE SCHEME.

The amounts of the drafts have been limited to £1,000 or 15,000 rupees and upward, and the conversion rates are 1s. 4 $\frac{1}{16}$ d. and 1s. 3 $\frac{3}{4}$ d., showing a difference of 2 per cent. These limits are fixed because it would be unfair and prejudicial to the banking interest for Government to compete more than is actually necessary with the exchange banks. Two per cent is the actual cost of transmitting specie to and from England and India, and had India a gold currency her exchange would fluctuate 2 per cent at most. The gold-standard offices will no more interfere with banking business than steamers do when they carry gold coins from one gold-using country to another. The banks will buy and sell sterling bills within or about the rates quoted by the government, and it is only on occasions when a gold shipment would be necessary between gold-using countries that the banks or the public will remit through the gold-standard offices. In fact, the probability is that the banks will be the only important remitters through these offices, just as they are the only parties to make much use of the facilities offered by the paper-currency department for remitting between Calcutta and Bombay.

#### REASONS FOR LOCATING IN LONDON INSTEAD OF IN INDIA THE PROPOSED GOLD CONVERSION FUND FOR THE INDIAN CURRENCY.

1. The gold will be required only for settlement of the balances of India's foreign indebtedness, and as London is the one great center for settlement of international indebtedness it will be the most convenient spot both for receipt and payment of the gold.

2. There must be a certain amount of uncertainty as to the quantity of gold or sterling money required as conversion fund, and gold or sterling money can always be borrowed in London at short notice, whereas there would be no facilities for prompt replenishment in India.

3. The establishment of the fund in India would withdraw gold from London, whereas its location in the Bank of England would strengthen the great central reserve of the Empire.

4. India is a hoarding country, and if her currency is made convertible on the spot into gold bars and these bars are always exchangeable on the spot into currency there is a danger that the gold bars will be absorbed into hoards and kept there, instead of rupees bearing extrinsic value.

5. The location of the reserve in India might create a monetary crisis under exceptional circumstances. Although London can obtain gold in a few days' time both from Paris and Berlin, yet a monetary crisis occurs there now and then, because the gold is not obtainable promptly. India is protected, as a rule, from these crises by the system of coun-

cil wire transfers; but these are not always available, and, looking to the great distance between London and India, the issue of fresh currency should not be delayed until gold can be imported.

6. Under ordinary circumstances (i. e., except during or shortly after periods of redundancy) the gold paid by the public into the conversion fund will be for the purchase of new rupees, and part of the gold will therefore be used by government in the purchase of silver for the mint. As silver can best be bought in London, it is desirable that government should receive the gold there. If the gold is received in India and the silver bought there, not only will government have to buy in a small and unreliable market, but two metals will be sent to India when one only, viz, silver, is wanted.

7. The object of the scheme is to prevent the use of gold as currency in India and to confine its use in connection with the Indian currency to the settlement of the balances of India's foreign indebtedness, and it is pure waste of time and money to bring gold out to India merely for the purpose of having it sent back.

8. When England arranged in 1819 to make her currency convertible into gold without the use of gold coins, she had no outside central market in which to deposit her gold conversion fund with safety, and she had therefore to adopt the somewhat clumsy plan of making her currency convertible on the spot into gold bars that could not be used in the local circulation; but when Scotland had the same object in view she naturally made her currency convertible into drafts on London and located there her gold conversion fund; and when a similar economical measure was contemplated in Ireland in 1804 Pitt, Fox, Canning, and the other members of the parliamentary committee recommended that the conversion fund should be located in London and the local currency made convertible into drafts on that fund.

To the objection to the plan that the liability which the government will incur under it is indefinite, Mr. Lindsay's answer is: First, that the currency machinery proposed will contract the rupee currency only as far as may be necessary and no further; it will be automatic, and will therefore act with all the accuracy with which a gold currency would act; not a single rupee will be withdrawn from circulation in excess of what is necessary, and therefore the machinery will involve the minimum of expense. Second, that it will be an unfailing (that is, the orthodox) remedy for an unfavorable balance of indebtedness. Third, that it will be an effective preventive of a fall in exchange, each fall involving heavy loss in the payments of the state.

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INCLOSURE 4 IN NO. 1.

*Minute by the Hon. Sir James Westland, K. C. S. I., examining Mr. Lindsay's scheme, dated January 18, 1898.*

Mr. Lindsay's scheme is described in Inclosure No. 3 in words which are understood to have Mr. Lindsay's own approval. He proposes that the government should offer to sell, without limit, on the one hand, rupee drafts in India at the rate of exchange of  $16\frac{1}{16}$ d. the rupee, and, on the other hand, sterling drafts on London at the rate of exchange of  $15\frac{3}{4}$ d. the rupee. He also proposes that when the demand for gold drafts on London becomes so great as to indicate the necessity the volume of the rupee currency should be contracted by melting down rupees, the silver bullion being sold for gold.

The funds connected with the transactions are to be kept separate from the ordinary government balances in "gold-standard" offices in London and in Calcutta and Bombay. The London office is to be kept in funds to meet the drafts drawn on it (1) by borrowing in gold to the extent of five or ten millions sterling; (2) by the receipts realized by the sale of drafts on India; (3) by the receipts realized by the sale of the silver bullion in rupees melted down; and (4) when necessary, by further gold borrowing.

The Indian offices are to be kept in funds to meet the drafts drawn on them (1) by the receipts realized by the sale of drafts on London; (2) by the coinage, when necessary, of new rupees from bullion purchased by the London office and sent to India.

The two main objects of the scheme are, first, to make the sterling and rupee currencies interchangeable at rates approximating to 16d. the rupee, and, secondly, in making rupees convertible into sterling to do so in a manner that will prevent the use of gold as money in India.

2. There is no doubt that a conversion fund which is ready and sufficient at all times to issue sovereigns in exchange for, say, 15½ rupees and to receive them in exchange for, say, 15 rupees will have the effect of maintaining the exchange somewhere about these values. So far as regards this object it is immaterial whether the conversion fund is held in England or in India, or partly in one and partly in the other. The question of locality merely affects the convenience of the persons who will tender for exchange, and will add to the quarter-rupee difference a further difference in respect of charges of actual remittance.

3. In Mr. Lindsay's plan that side of the conversion fund which receives and pays gold is located in England, partly because, as above stated, one of his objects is to keep gold entirely out of circulation in India, where he thinks it would only be absorbed for hoarding, and partly because the gold will be required only for the settlement of the balance of India's foreign indebtedness, and London, being the great center for the settlement of international indebtedness, is considered to be the most convenient place for the receipt and payment of gold. Mr. Lindsay also wishes to avoid the withdrawal of gold from London, a measure which might weaken the great central reserve of the Empire.

This feature seems to be a distinct objection to the scheme. The public will regard with distrust arrangements for the establishment of a gold standard in India which carefully involve the location of the gold reserve in London and its use there by trade. A gold reserve intended to support the introduction and maintenance of a gold standard in any country ought to be kept in the country if it is to produce its full effect in the way of establishing the confidence which is almost indispensable to the success of the measure. If the Indian gold reserve is located in London and the public believe that it may at any time vanish in supplying the requirements of trade or of the secretary of state, confidence will hardly be established; and in any case it seems certain that a reserve of any named amount will produce a greater effect if it is located in India than if it is 6,000 miles away.

4. The method and principle of operation of the scheme are very much the same as those on which our own proposals are based. Given a circulation composed of a certain number of rupees, and given a certain condition of trade in point of volume and activity, the rate of exchange will tend to some definite point. If the number of rupees

is diminished or the activity of trade increased, the rate of exchange will rise, and vice versa. It follows that if rupees are bought and locked up, the rate of exchange will be raised, and if the government offers to buy them up at  $15\frac{3}{4}$ d. and continues to so buy them up as long as they are offered (as they will be as long as the exchange value is less than  $15\frac{3}{4}$ d.), the value will ultimately be raised to  $15\frac{3}{4}$ d. But it is merely an assumption that the difference between the number of existing rupees and the number at which the exchange would rise to  $15\frac{3}{4}$ d. is so small that the absorption of 5,000,000 or 10,000,000 worth would be enough to bring about the result. It assuredly would not have been enough had the scheme been introduced in 1893. It may be enough now that the volume and activity of trade have increased so much above the standard of 1893; but, on the other hand, it may not. The scheme, therefore, would involve the undertaking of an indefinite liability.

5. Further, in so far as the contraction of the rupee currency is concerned, there is no reason why the government should offer a fixed rate for the rupees, for it would obtain all the advantage which the plan brings by the reduction of the volume of currency if it were to offer simply something more than the market rate for the time being. The rate proposed by Mr. Lindsay would have been much higher than the market rate if the operation had been begun in 1894.

6. An offer of this kind, it may be admitted, would not have the same effect as the offer of a fixed rate in steadying the rate of exchange at the desired level. But an offer of a fixed rate of  $15\frac{3}{4}$ d. can be made economically only at the final stage. Mr. Lindsay's plan, indeed, is not adapted to the preliminary stage in which the government is engaged in reducing a redundant circulation; it assumes that the redundancy has already been removed, and that the circulation has reached the stage in which at the season when trade is inactive the rupee tends to fall below  $15\frac{3}{4}$ d., and at the season when it is active it tends to rise above 16d. That stage being reached, it is quite possible that the redundant rupees would come into the fund in exchange for gold at  $15\frac{1}{4}$  rupees for the pound in the inactive season, and thus keep the level of exchange up to  $15\frac{3}{4}$ d., and then be returned into circulation at 15 to the pound in the active season, and thus keep the level of exchange down to 16d.; and that the amount that would so come and return would not exceed some manageable figure, say five or ten millions' worth.

7. The scheme accordingly becomes practicable only when the condition of the circulation has already reached the point where the redundancy in the inactive season is reduced to a small amount. Before that stage is reached it is merely a plan for buying up, without limit and at an unnecessarily high price, the excess of rupees in circulation. Mr. Lindsay contemplates the melting up and sale of these rupees, for which, ex hypothesi, there would be no room in the circulation. To simply lock them up would be useless and expensive. They might as well be melted up and sold, and his plan, so far as this stage of its operation is concerned, differs from that proposed in the dispatch only in this respect, that he buys in at a higher price than they are worth the rupees which he intends to melt instead of using those which we already hold at a lower value.

8. Several newspapers published in India, in examining Mr. Lindsay's scheme, have noticed as a point of objection that it would involve the government in an unlimited liability to pay gold in exchange for rupees. It may be observed that not only is it impossible to fix before-

hand any limit to the amount of rupees to be ultimately purchased, but also the government would abandon all control of the measures for introducing its gold standard, and under a quite conceivable concurrence of adverse circumstances might find itself committed suddenly to a liability beyond its immediate resources. This is one of the most important differences between this scheme and that proposed in the dispatch to which this memorandum is appended. Under the latter the government can feel its way and need never commit itself in advance to any liability which it is not fully prepared to meet.

9. There is also an important feature which does not seem to have been sufficiently considered. It is that the plan we have to adopt will not be applied to a market in which the government (who are the proprietors and workers of the conversion fund) can afford to stand aside and let the operations go on only as between public and public. On the contrary, the problem to be faced is how to maintain the exchange value in the face of the secretary of state's drawings of sixteen or seventeen millions a year. Let it be assumed that the stage has been reached where the fund is in actual operation, and that the value at which the rupee would stand, in regular course of trade and of drawings without the aid of the conversion fund, is somewhat below 15½d., but that it is maintained at this rate by banks paying their surplus rupees into the fund and taking gold out of it for employment in England. Mr. Lindsay states that under his scheme the sales of council bills are under such circumstances to be continued on their present footing. During the operations just supposed, therefore, the secretary of state will be selling council bills on India. The expectation, it is presumed, is that he will sell them at a rate approaching an exchange of 15½d.; for it can hardly be contemplated as possible that he would for any length of time simultaneously sell sovereigns at a cheap rate and buy them at a dear rate. The secretary of state accordingly receives gold from banks in England and gives them bills on the treasury in India, while at the same time the same or other banks pay rupees into the conversion fund, drawing out gold in exchange. The only final operation is that the secretary of state has passed a certain amount of gold from the conversion fund into the India office treasury; the banks, as a whole, remain unaffected, and the situation is exactly the same as if the secretary of state had suspended drawings for the time and met his requirements in the inactive season with money directly borrowed against the intended heavier remittances of the active season. In short, the conversion fund under such circumstances gives no facility and no machinery which is not, under the existing system, available by means of suspension of drawings. If the amount suspended in the inactive season is more than can be recovered by excess drawings in the busy season, then *ex hypothesi* the rupees paid into the conversion fund in the inactive season are greatly in excess of the amount for which a demand would be made upon it in the busy season, and the case is that described in the latter part of paragraph 7 above, namely, the final withdrawal of rupees purchased at an excessive price.

10. To consider the other side of the plan let the supposition now be the contrary of that made in paragraph 9, and that the rate of exchange is tending to rise above the gold point. In that case it is proposed to receive into the conversion fund all gold tendered, and with this gold to buy silver bullion to be coined into rupees until, the requisite addition being made to the circulating stock, the value of

the rupee falls to 16d.—that is to say, when circumstances arise in which gold would naturally, in response to the demands of trade, find its way into circulation in India, the scheme contemplates special steps to prevent that result in order to substitute silver for gold as the required addition to the volume of the currency.

It has been stated in paragraph 8 of this memorandum that if Mr. Lindsay's initial assumption proved erroneous the government would be deprived of all control of the measures for introducing the gold standard in the matter of the payment of gold for rupees. Here we find that, if Mr. Lindsay's assumption be correct, the government are vested with a sensible degree of control of the volume of the rupee currency, for new rupees are to be coined from bullion bought with gold from the gold-standard offices at the discretion of government. This is not a feature of the plan that can commend itself in principle, for the regulation of the sole full legal-tender currency of a country should be entirely automatic and not in any degree dependent upon the discretion of the administration.

11. This special interference of the Government is suggested in pursuance of one of the two main objects of the plan. But it seems very doubtful whether the object of the interference—even if the interference were in itself unobjectionable in principle—is really worth attaining. Instead of requiring the Government to make additions of its own motion to the currency, would it not be a more healthy state of things that the state of par should be maintained by the natural backward and forward flow of excess currency in the hands of the public? And when the circumstances assumed in this paragraph arise, would it not be preferable to let the gold coin go into actual circulation?

The par of exchange between rupees and gold will be maintained only by exporting redundant rupees, in some form or other, and when the stage is reached where the circulation as a whole is sometimes redundant and sometimes deficient (with reference to a value of 16d.), the par will be maintained only by an arrangement by which the redundancy will ebb in the form of coin to England and the deficiency be corrected by the flow of coin from England. Mr. Lindsay's proposal is to make this ebb and flow take place in rupees, and it may be admitted that it would so operate, though not (except at inordinate cost) to raise the rupee circulation to the point where the stage of ebb and flow comes into operation. But it will be far preferable if the margin of circulation which is to ebb and flow consists of sovereigns which can be directly utilized in England. India will then have a gold standard in the simplest and most convenient form. The number of rupees in circulation must be so reduced that they shall, even at the most inactive time of trade, be insufficient with reference to an exchange of 16d., and will even then require to be supplemented (mainly, if not entirely, in respect of the less active circulation which is represented by the reserve of banks and of the Government) by further coin. That coin should be gold, and under the scheme proposed in the dispatch it is sovereigns only which would find their way into the circulation when the rupees became deficient, and the sovereigns included in the circulation will form that margin of it which ebbs and flows in the manner above described.

## No. 2.

*The secretary of state for India to the governor-general of India in council.*

No. 67 (financial).

INDIA OFFICE, April 7, 1898.

MY LORD: I have to acknowledge the receipt of your excellency's financial letter, dated March 3, 1898, No. 70, in which you make certain proposals for the completion of the policy which was initiated in 1893 by the closing of the Indian mints. That policy had for its declared object the establishment of a gold standard in India, and you now submit the scheme by which you consider that this policy can best be made effective.

2. It is unnecessary for me to inform your excellency that your suggestions will receive from Her Majesty's Government the careful and minute attention which the extreme importance of the subject requires.

3. I agree with your excellency in the opinion that it is most desirable to bring about, without delay, such an improvement in the present situation as may remove the existing uncertainty and want of confidence which are undoubtedly very injurious to the interests both of India and of the United Kingdom.

4. I concur in the view expressed by your excellency's government that any attempt to return to the state of things which existed previously to the closing of the mints is practically out of the question. It remains, therefore, to be decided whether the objects of your government can best be attained by the scheme which you have put forward or otherwise.

5. I have no intention at the present moment of making any comment upon your proposals, with the nature of which, as you are aware, I only became acquainted on the receipt of your letter above mentioned. Your excellency must, however, be conscious, as I am, that they contain suggestions upon matters which have been the subject of much difference of opinion, and that, in view of the gravity of the issues involved, a final decision upon them can only be arrived at after a patient and thorough investigation by the highest available authorities.

6. I propose, therefore, to refer the whole matter to a committee consisting of gentlemen whose knowledge and experience, whether administrative, financial, or commercial, entitles their judgment to the greatest weight and who may be expected to give an impartial and unbiased opinion upon the questions which will be submitted to them. They will be requested to consider and report upon your proposals and upon any other matter which they may regard as relevant thereto, including the monetary system now in force in India and the effect of any proposed change on the internal trade and taxation of that country, and they will, further, be invited to submit any modifications of your proposals or suggestions of their own which they may consider advisable for securing stability of exchange with the United Kingdom and for the establishment in India of a satisfactory system of currency.

7. I agree with your excellency in thinking it most desirable that the matter should be dealt with as speedily as possible. The committee will be appointed immediately and will commence their inquiry as soon as may be found practicable. In view of the very great importance of the interests affected and of the intricacy of the questions

involved it can not be expected that they will report for some time to come, but you may rest assured that no effort will be wanting on their part or on that of Her Majesty's Government to avoid unnecessary delay.

8. I think it very desirable that the views of your excellency's government should be explained to the committee by some competent officer or officers deputed by you for the purpose, and I request that you will take measures accordingly on the receipt of this dispatch.

I have, etc.,

GEORGE HAMILTON.

III. AMOUNT OF SILVER PURCHASED IN LONDON FOR THE GOVERNMENT OF INDIA.

[Furnished by the Indian office.]

*First purchase.*—50,297,224 ounces of silver were purchased and shipped to India between March 15, 1900, and April 4, 1901, at a total cost, including the charges made by the Bank of England, of £6,055,175 13s. 7d., i. e., 28.9d. per ounce.

The price per ounce of each installment was as follows:

	Date of purchase.	Value.
		d.
First installment .....	Mar. 15 to Apr. 5, 1900 .....	27 <sup>5</sup> / <sub>8</sub>
Second installment .....	May 5 to May 31, 1900 .....	27 <sup>1</sup> / <sub>2</sub>
Third installment .....	May 31 to June 29, 1900 .....	27 <sup>3</sup> / <sub>4</sub>
Fourth installment .....	June 29 to July 26, 1900 .....	28 <sup>1</sup> / <sub>2</sub>
Fifth installment .....	Sept. 14 to Oct. 5, 1900 .....	29 <sup>1</sup> / <sub>2</sub>
Sixth installment .....	Oct. 12 to Nov. 9, 1900 .....	29 <sup>3</sup> / <sub>4</sub>
Seventh installment .....	Nov. 9 to Dec. 7, 1900 .....	30 <sup>1</sup> / <sub>2</sub>
Eighth installment .....	Dec. 7 to Dec. 21, 1900 .....	30 <sup>1</sup> / <sub>2</sub>
Ninth installment .....	Dec. 20, 1900, to Jan. 10, 1901 .....	29 <sup>1</sup> / <sub>2</sub>
Tenth installment .....	Jan. 11 to Feb. 1, 1901 .....	29 <sup>3</sup> / <sub>4</sub>
Eleventh installment .....	Feb. 7 to Mar. 7, 1901 .....	28 <sup>1</sup> / <sub>2</sub>
Twelfth installment .....	Mar. 7 to Apr. 4, 1901 .....	28 <sup>3</sup> / <sub>4</sub>

Average price, 28.919d.

*Second purchase.*—3,188,890 ounces were purchased between March 6 and April 9, 1903, at a total cost, including the bank's charges, of £302,586 18s. 9d.

The price per ounce of each installment was as follows:

	Date of purchase.	Value.
		d.
First installment .....	Mar. 6, 1903 .....	a 22 <sup>3</sup> / <sub>4</sub>
Second installment .....	Mar. 12, 1903 .....	a 22 <sup>1</sup> / <sub>2</sub>
Third installment .....	Mar. 19, 1903 .....	a 22 <sup>1</sup> / <sub>2</sub>
Fourth installment .....	Mar. 27, 1903 .....	a 22 <sup>1</sup> / <sub>2</sub>
Fifth installment .....	Mar. 31, 1903 .....	a 22 <sup>1</sup> / <sub>2</sub>
Sixth installment .....	Apr. 9, 1903 .....	22 <sup>1</sup> / <sub>2</sub>

a Average.

## IV. THE CURRENCY POLICY OF INDIA.

[By J. Barr Robertson, in the *Journal of the Society of Arts*, March 27, 1903.]

India is naturally a country to which silver is better suited than gold for the purposes of money. The vast numbers of its population and the very slender resources and income of all except a limited number make it extremely desirable that its money should be of small denomination and intrinsic value, so that the people may be able to carry out with facility the vast mass of their transactions for very small amounts. For more than sixty years before 1899 silver had been the sole unlimited legal tender, and in the last twenty-five years successive Indian administrations have supported the various efforts that have been made to establish a fixed par of exchange between gold and silver by international agreement, though the particular terms contained in the proposal of the American and French Governments in 1897 were not approved of by the Indian government of that day.

The failure of so many efforts and the increasing divergence between the values of gold and silver caused the Indian government in 1892 to consider seriously their position in regard to the great fall in the rate of exchange, and the threatened further fall, and they came to the conclusion that the only policy that could arrest this downward course was to close the mints to the silver of private owners. In order to calm the fears of a considerable body of objectors who thought it necessary to provide against the danger of a considerable rise in the exchange, they proposed to take in at the Indian treasuries any amount of gold that might be offered, and to give out rupees in exchange at the rate of 1 rupee for every 1s. 6d. worth of gold tendered. The committee, presided over by the late Lord Herschell, was appointed to investigate the proposals, and it finally reported in favor of closing the mints and of issuing rupees for gold at 1 rupee for every 1s. 4d. instead of 1s. 6d. This policy was passed into law by the Indian government on June 26, 1893.

The closing of mints is clearly one of the prerogatives that governments may rightfully exercise, the sole question in each case being whether it is wise or expedient to resort to it in any particular set of circumstances. The causes that led the government of India to close the mints at the time they did were clear and unmistakable. In the financial year 1872-73 the average rate at which council bills were sold was 1s. 10 $\frac{1}{4}$ d., and the rate fell steadily for twenty years, so that in 1891-92 the rate was 1s. 4 $\frac{1}{4}$ d., notwithstanding that purchases of silver by the United States had been, from 1878 to 1890, on the scale of the minimum fixed by the Bland and Allison acts, namely, \$2,000,000 worth per month, and from 1890 to 1893, under the Sherman Act, at the rate of 4,500,000 ounces per month. At the end of 1893 these purchases were entirely abandoned and silver was left to its fate.

Ever since 1873 the question of the fall in the gold price of silver, and consequently in the gold rate of exchange of the rupee, had been a cause of anxiety to the Indian government and to merchants engaged in its external trade with this country and with other gold-money countries. As gold appreciated and the rupee rate of exchange fell, more rupees were necessary for all classes of gold debts, and particularly was this conspicuous in connection with the Indian home charges. As compared with the rate of 2s. at which the accounts of the government were kept, the loss by exchange for 1892 as shown in the remittances of the Indian government reached Rx.9,946,200. The average rate for council bills, which in 1891-92 had fallen to 1s.

4½d., had further fallen in 1893 to a fraction less than 1s. 3d. The probable partial or total suspension of the purchases of silver by the United States, which was strongly advocated there, was in these circumstances a danger of very great magnitude hanging over the Indian financial position, because all efforts at an international settlement of a par of exchange between gold and silver had proved abortive, and there was no reasonable expectation of any such solution being arrived at in the near future.

In the meantime between 1873 and 1892 many proposals had been made to the government to close the mints to the silver of private holders, but so long as the equilibrium of Indian finance was not seriously endangered the government had declined to close the mints. When, however, the rupee fell to 1s. 3d., with the likelihood that it might fall a great deal further, the government felt that the limit of safety for Indian finance had been reached and that the mints ought to be closed. No doubt this step was taken by the Indian government with great reluctance, as it imposed on them a very grave responsibility. In the interest of India, however, the step was essential if greater evils were to be warded off than those that might be expected to follow in the train of the closed mints.

The increased purchases of silver by the United States under the act of 1890 had raised the price of that metal, and the following figures of Mr. Sauerbeck's cover the years before and after the closing of the mints:

Year.	Gold value of silver in London. <sup>a</sup>	Forty-five leading commodi- ties in Lon- don. <sup>b</sup>	Year.	Gold value of silver in London. <sup>a</sup>	Forty-five leading commodi- ties in Lon- don. <sup>b</sup>
1889.....	70	72	1896.....	50	61
1890.....	78	72	1897.....	45	62
1891.....	74	72	1898.....	44	64
1892.....	65	68	1899.....	45	68
1893.....	59	68	1900.....	46	75
1894.....	48	63	1901.....	45	70
1895.....	49	62	1902.....	40	69

<sup>a</sup> 100 equals 60.84d. per ounce.

<sup>b</sup> 100 equals gold prices of 1867-1877.

In spite, therefore, of the large purchases of silver by the United States, its gold value fell in 1892 to 65, and by 1894 it had fallen to 48. But in addition to the fall in the gold value of silver as a consequence of the appreciation of gold a new factor came in to lower the gold value of the rupee, and that was the increased supplies of silver that were imported into India.

The yearly average of the net imports of silver in the fifteen years 1860-1874 was Rx. 7,920,388, whereas during the fifteen years 1875-1889 the yearly average was only Rx. 6,503,575. Yet it is generally believed that during the latter period the fall in the rate of exchange was due to increased supplies of silver placed upon the Indian market, though, as will be seen above, the supplies of silver during these fifteen years were much reduced as compared with those in the previous fifteen years.

But in 1890, 1891, and 1892 the average net imports amounted to Rx. 11,378,400, an increase of 65 per cent as compared with the average of the previous five years. Thus it is evident that in addition to the fall in the gold value of the rupee, caused by the appreciation of gold, there was also in these three years the influence at work of

largely increased supplies of silver which also depressed the exchange. It will be seen that the average net imports of silver in the five years from 1890 to 1894 amounted to Rx.12,137,717, while in the eight years from 1895 to 1902 they were only Rx.6,412,310. Under the combined influence of scarcity of gold and increased supplies of silver, together with the prospect of the United States partially or wholly suspending the purchases of silver, the Indian government found themselves in a critical position. On June 26, 1893, when the mints were closed, the rate of exchange was 1s. 2½d., and the government undertook to give out a rupee for every 1s. 4d. in gold paid to them. This rendered it absolutely certain that the rate of exchange could not rise more than fractionally above 1s. 4d. It was frequently asserted that this policy would be a failure, but as the Indian government received gold which is salable in every market of the world and only undertook to give a rupee for every 1s. 4d. in gold, failure could only take place if the amount of silver in a rupee became worth more than 1s. 4d. As that was exceedingly unlikely to happen, seeing that the government were offering for 1s. 4d. what at the time was only worth 1s. 2½d., the position of the government was a very strong one; indeed it was impregnable from the currency point of view.

It is in the highest degree necessary to emphasize the fact that up to 1890 India's financial troubles were due almost entirely to gold. The silver standard gave India in the twenty years 1873-1892 a remarkable degree of prosperity, whereas if India had been on the gold standard with exchange at 1s. 11d., and prices in 1892 on a gold basis of 68 instead of, as they really were, on a silver basis of 96, it is needless to say that there would have been widespread adversity all over India.

The following table gives a condensed view of the material facts:

*India—Rates of exchange and net imports of gold and silver.*

Years ended March 31—	Average rate of exchange of council bills.	Average net imports of gold per annum.	Average net imports of silver per annum.
	<i>s. d.</i>	<i>Rx.</i>	<i>Rx.</i>
1860-1864 .....	1 11½	5,889,538	10,181,781
1865-1869 .....	1 11½	5,835,117	9,981,112
1870-1874 .....	1 10½	3,073,776	3,598,271
			7,920,388
1875-1879 .....	1 9	639,595	6,408,692
1880-1884 .....	1 7½	4,128,613	6,205,349
1885-1889 .....	1 6½	3,083,670	6,896,685
			6,503,575
1890 .....	1 4½	4,615,304	10,937,876
1891 .....	1 6	5,636,172	14,175,136
1892 .....	1 4½	2,413,792	9,022,184
1893 .....	1 3	2,812,683	12,863,569
1894 .....	1 2½	641,246	13,719,818
			12,137,717
1895 .....	1 1	4,974,094	6,329,230
1896 .....	1 1½	2,525,952	6,582,222
1897 .....	1 2½	2,291,038	5,856,030
1898 .....	1 3½	4,908,489	8,473,480
1899 .....	1 4	6,503,408	3,980,784
1900 .....	1 4	9,440,660	3,576,698
1901 .....	1 4	842,135	9,507,232
1902 .....	1 4	1,937,600	7,192,800
			6,412,310

At the time of the closing of the mints a number of fallacies were entertained as to the course of exchange. One was that the Indian government had, by closing the mints, obtained control of the exchange, and apparently sharing this view the secretary of state immediately fixed his minimum for council bills at 1s. 4d., and afterwards reduced it to 1s. 3½d. The rate had at the closing of the mints been 1s. 2½d., with a downward tendency, and it may be asked what sudden effect had the Indian government produced that 1s. 2½d. should be transformed into 1s. 4d. or 1s. 3½d.? There was no reason for any such expectation, and the result was that, notwithstanding the practical withdrawal of council bills from the exchange market for the last six months of 1893, the average exchange for the year 1893-94 was only 1s. 2½d.

Another fallacy of the period which was almost universally believed in, and was not objected to by Lord Herschell's committee, was that the surplus exports must begin to flow from India before the corresponding council bills could be sold, and from July to December, 1893, the secretary of state for India acted on that view. The result, however, of waiting for the surplus exports to flow from India was that in the absence of council bills they did not flow. The following figures show exactly what did take place:

## INDIA.

Six months, July to December.	Surplus exports.	Surplus imports.
1891 .....	<i>Rx.</i>	<i>Rx.</i>
1892 .....	7,735,822	.....
1893 .....	11,107,802	.....
		1,960,511

The secretary of state sold only a very small amount of council bills in the last half of 1893, and the result was that, as he made no demand on India to pay its current indebtedness, the money being borrowed in London instead, the demand for surplus exports from India was not made, and the balance of Indian trade was turned into one of surplus imports. It is important to observe the rapidity with which the trade immediately adjusted itself to the diminished demand for exports in the absence of council bills. In January, 1894, the secretary of state abandoned his policy of trying to control exchange, or to obtain a higher rate than the conditions of the market warranted, and began by offering his bills at the market rate. The average exchange in 1893-94 was 1s. 2½d., and the rates for the two following years, 1894-95 and 1895-96, was 1s. 1d. and 1s. 1½d., respectively, while in 1896-97 the rate was 1s. 2½d. and in 1897-98 1s. 3½d. These figures would seem to present a difficulty, as the question naturally arises why, after the mints were closed in order to prevent the further fall in exchange, the rate should have fallen by 1½d., or about 10 per cent—that is, from 1s. 2½d. to 1s. 1d. No very marked change ought to have been expected to take place immediately after the closing of the mints, though the tendency ought to have been upward.

However, in examining Mr. Sauerbeck's gold index numbers of commodities in London, as given in a previous table, it is seen that the number for 1892 was 68, and the same for 1893. But in 1894 it fell to 63, in 1895 to 62, and in 1896 to 61. That is a total fall from 68 of about 10 per cent. In "prices and wages in India," which gives the rupee prices of Australian gold, the index number for 1893 was

144, in 1894 it was 160, and in 1895 it was 169, while in 1896 and 1897 it was 155 and 154, respectively, when the exchange had again risen to 1s. 2½d. The rise in the rupee value of gold from 144 to 160 was about 11 per cent, and, though not exactly for the same period, the fall in the gold index number of prices in London was about 10 per cent, exactly the same as the fall in exchange from 1s. 2½d. to 1s. 1d., so that these three series of index numbers all pointed to an increase in the purchasing power of gold of about 11 per cent.

It is not well, however, to expect too close resemblances where the statistics are taken at points so widely apart and where there may be considerable differences in circumstances, but it is important to show that changes in gold and in rupee prices and exchanges can to a great extent be accounted for.

The conclusion to be derived from the above figures is not that the closing of the mints was a failure because it did not arrest the fall in exchange, but that the purpose of the closing was counteracted for a time by a subsequent increase in the purchasing power of gold and decrease in the purchasing power of the rupee; and, had the mints not been closed, the exchange would have fallen lower still, as a larger amount of silver would have been imported and coined. But for these two changes it is fair to infer that the exchange in 1894-95 would have been higher than 1s. 2½d., and in 1896-97 would have gone higher still.

The following table shows the rates for council bills and Indian index numbers from 1890 to 1902:

Years ended March 31—	Average rate of council bills.	Index numbers of exports and imports at Calcutta. <sup>a</sup>
	s. d.	
1890	1 4½	94
1891	1 6	89
1892	1 4½	94
1893	1 3	100
1894	1 2½	101
1895	1 1	105
1896	1 1½	103
1897	1 2½	101
1898	1 3½	98
1899	1 4	97
1900	1 4	107
1901	1 4	b 111
1902	1 4	-----

Average of periods per annum:

1873-1882	96
1883-1892	88
1893-1901	102

<sup>a</sup> From a table from 1873 to 1901, furnished by Sir Henry Waterfield, G. C. I. E., as compiled from index numbers in "Prices and Wages in India." The prices are for January and July. Prices in 1873 equal 100.

<sup>b</sup> For January only.

The Sherman Act was passed in 1890, and in that year the gold price of silver in London, as shown in a previous table, was 78 on the average, while in India in 1891 the rupee index number of commodities had fallen to 89, both responding to the increased value of silver. The above table is the most important available in regard to the prices of Indian commodities generally, as it embraces a very large number of articles, and it shows that the average of the nine years 1893-1901 was 102 as compared with 100 in 1873. From 1890 to 1892 the gold price of silver fell from 78 to 65, and from 1891 (average of prices of Jan-

uary and July only) to 1892 the rupee price of commodities rose to 94, and in 1893 they were 59 and 100, respectively. Rupee prices of commodities were, in 1889 at 94, in 1893 at 100, in 1894 at 101, and in 1895 at 105, the highest price of the whole period from 1873 up till that year. In 1896 the index number fell to 103, in 1897 to 101, and in 1898 to 93, so that the year 1896 may be noted as the beginning of the contraction of the Indian currency. The 1895 prices are the average of those for January and July, and thus this highest index number occurs after a period of less than two years from the closing of the mints. The gold price of silver meanwhile fell from 59 in 1893, to 48 in 1894, 49 in 1895, 50 in 1896, 45 in 1897, and 44 in 1898, while in 1902 it fell to 40, and at the end of December, 1902, to 37.

On the other hand, the rupee exchange, which at the closing of the mints on June 26, 1893, was 1s. 2 $\frac{3}{4}$ d., was still for the year, March 31, 1894, a little above 1s. 2 $\frac{1}{2}$ d.; but in the following year ending March 31, 1895, it had fallen to 1s. 1 $\frac{1}{10}$ d. on an average, for the year 1895-96 it rose to nearly 1s. 1 $\frac{3}{4}$ d., in 1896-97 to nearly 1s. 2 $\frac{1}{2}$ d., and in 1897-98 to 1s. 3 $\frac{1}{2}$ d. It will be seen, therefore, that the highest point of Indian rupee prices was 105, the mean of prices of January and July, 1895, and the lowest yearly average of the gold exchange per rupee was 1s. 1 $\frac{1}{10}$ d. in 1894-95.

In connection with the rise of Indian prices from 1893 to 1895 it ought to be recorded that immediately after the closing of the mints the government accepted from banks and others silver to the amount of Rx. 2,000,000, which had been shipped to India before the closing of the mints, and coined it. As silver had in the meantime fallen in value as compared with rupees, these Rx. 2,000,000 would generally remain as coin, as they were too valuable to be melted down for use in the arts. Then a change was made in the amount of rupees held in the currency reserve, which enabled the government to withdraw Rx. 2,000,000 from the reserve. Thus Rx. 4,000,000 were added to the actual circulation, and it is generally believed that a considerable quantity of rupees came out of hoards and passed also into the circulation. From these sources rupees were added that raised the Indian prices to 105 in 1895, and it may have been that the large imports of silver from 1890 to 1893 had also a continuing effect for some time.

The expectation of the Indian government was that, when all the temporary causes of disturbance incidental to the policy of closing the mints had ceased to operate and normal conditions had been established, the relative contraction of the currency would set in, owing to increased population and trade, without any increase in the coinage of rupees being permitted, while more or less melting by private individuals and loss of coins would no doubt take place, and that this would cause a rise in the gold exchange which would naturally be followed by a fall in the rupee prices of commodities. From the above figures it would appear that these two changes began in the year 1895-96, namely, the year following the lowest point of exchange and the highest point of Indian prices.

In considering the movements of exchange it is necessary to deal with the factors that enter into it. There are permanent causes that determine a rate, and temporary causes that continually modify that rate without permanently affecting it. A par of exchange between two countries having a gold standard is simply the relation between the coins of one country and the coins of the other. The rate of exchange may fall to a point where there will be a profit on shipping

bullion, or may rise to a point where bullion will come from abroad. The par of exchange is the center around which these movements take place; but fluctuations due to temporary causes are strictly limited. No condition of exports or imports can permanently affect the exchange between these countries; sudden changes in either exports or imports may produce changes of rate, but this can only be for a short time. Nor can large foreign loans or large transactions in exchange do anything more than temporarily affect the rate. In the case of India and England the question was one of different money systems, and therefore, in the absence of a fixed international par of exchange, as the amount of gold money or silver money might be increased or diminished owing to special causes affecting either of them separately, there could be no fixed par of exchange. The volume of money in each country fluctuated without regard to the volume in the other, and the moneys of the two were not interchangeable, so that a fixed par of exchange could not be maintained by the transference of bullion from one country to the other.

The prices of Indian commodities were at 105 in 1895, as compared with 105 in 1874, but the English gold prices were represented by 62 in 1895, as against 102 in 1874. The Indian case showed that the rupee had practically the same purchasing power in 1895 as in 1874, and that therefore monetary conditions were normal in India, whereas the English case showed that in 1896 prices were 39 per cent below the average of the eleven years 1867–1877—that is, the purchasing power of gold as shown by these prices had risen exactly 64 per cent.

The Indian government therefore succeeded in their policy of connecting India with the gold standard, as 1s. 4d. was reached in 1899, while Indian prices were maintained at a level of 97 and at higher figures in the next two years, and these prices ought to have brought great prosperity to the Indian producers. The rate of 1s. 4d. was of immense importance to the Indian government, and the stable prices of enormous value to the Indian producers and consumers, while the exporters of merchandise from this country to India got the benefit of a 1s. 4d. exchange in common with exporters and those sending remittances from India.

The foregoing index numbers of exports and imports at Calcutta are the most important series available in regard to prices in India, and these stood at 96 for the average of the ten years 1873–1882, at 88 for the ten years 1883–1892, and at 102 for the nine years 1893–1901. These index numbers must be regarded as exceedingly satisfactory from the currency point of view.

#### THE NEW CURRENCY STANDARD OF 1s. 4d. TO THE RUPEE.

The period of contraction came to an end in the beginning of 1899, when the 1s. 4d. rate was reached and became effective. The tendency then was for the rate to rise above 1s. 4d., and as soon as it rose to 1s.  $4\frac{5}{8}$ d. there was a profit on shipping gold to India to be tendered at the currency reserve in exchange for rupees. The government undertook to receive gold and give out rupees at the rate of 1s. 4d. for each rupee. Thus the Indian currency had reached a gold basis and a par of exchange had been established with the gold countries, the trade with which amounted to about three-fourths of the whole trade of India. It is true at the same time that it lost the par of exchange with the silver countries with which it carried on one-fourth of its whole trade. But it was impossible that it could main-

tain the two pars of exchange unless an international agreement was to be arranged, and that at the time of the closing of the mints was regarded as unattainable in the state of opinion of the leading governments.

Thus, India had passed from the silver standard, which the Government rightly regarded as much too precarious in the future for the interests of the great Indian Empire, and had passed on to the gold standard. But it was not on to the standard of the gold countries as it existed in India before 1873 that it passed, as that would have been to India an incalculable disaster. The former par value of the rupee before 1873 was 1s. 10½d., though the nominal rate was taken at 2s. It is evident, therefore, that if India had adopted the gold standard, with the gold value of the rupee at 1s. 10½d., it would have contracted its currency until the rate would have risen to that figure. But instead of this the contraction was only to 1s. 4d., and that made an enormous difference to the people of India. The index number of prices of 45 commodities in London are shown in a table already given, from before the closing of the mints till 1902, and in 1902 the number was 69—that is, general prices in London had fallen 31 per cent as compared with what they were in the period from 1867 to 1877. India fortunately did not follow the example of western countries by incurring this fall in prices of 31 per cent.

But it did a much wiser thing. Instead of going back to 1s. 10½d. and placing itself on the gold basis of the western countries, it adopted 1s. 4d. as a gold basis of its own, which is exactly 70 per cent of 1s. 10½d. The consequence was as gold prices had fallen very greatly owing to the scarcity of gold, and were at 70 in 1901 and 69 in 1902, the adoption by the Indian government of 1s. 4d.—that is, 70 per cent of 1s. 10½d.—enabled them to eliminate from their currency the effect of the scarcity of gold. Had they adopted 1s. 10½d. their prices to-day would be 30 per cent lower than they are, owing to the scarcity of gold, whereas their position is that as gold has increased in purchasing power, and 1s. 4d. in gold will now purchase as much as 1s. 10½d. did before, they have escaped the fall of 30 per cent in the prices of commodities to which the gold countries have had to submit. India has had comparatively stable average prices of commodities, as has been shown in the table already given, whereas the prices of the gold countries are 30 per cent lower, and the prices of the silver countries were in 1902 about 74 per cent higher than the level of Indian prices in 1873.

So far as the change of currency basis is concerned, it has practically had very little effect on Indian prices, which are not much higher than they were in 1873. It is not an unusual thing to read of the great injury that has been done to the people and the trade of India by the adoption of the gold basis of 1s. 4d. for the rupee, but there is no real foundation for such a charge. India has avoided the Scylla of very low gold prices and the Charybdis of exceedingly high silver prices, and has to-day a range of prices dating from before 1873 of such stability as no other country in the world can show. It must be remembered that the ideal money system of the economists is one that gives stability in the average prices of commodities, because then justice will be done between debtor and creditor, between producer and consumer. And there can not be a shadow of a doubt that India closed its mints at the very time when the stability of its prices was threatened, and thus escaped a serious dislocation of prices and wages and of debts and credits. This stability in all currency relations is one of the reasons why,

in spite of famine and plague, the people of India have been of late sufficiently prosperous to provide the materials of fairly satisfactory budgets. With stable average prices, neither the buyer nor the seller has been unduly favored, and this has enabled a just system of taxation to prevail, because the burden of taxes has neither been increased nor diminished by changes in the currency itself.

#### CURRENCY LEGISLATION FROM 1893 TILL THE PRESENT TIME.

(1) The mints were closed to the coinage of silver for the public by act No. VIII of 1893 and notifications of June 26, 1893. The government undertook to issue to the public at Calcutta and Bombay, through the commissioners of paper currency and the mint masters, currency notes and silver rupees in exchange for gold coin and bullion at the rate of 1s. 4d. the rupee, or 15 rupees to the pound sterling.

The government undertook to accept in payment of sums due from the public sovereigns and half sovereigns at 15 rupees to the pound sterling.

(2) Act No. XXI of 1896 authorized an increase to 100,000,000 rupees of the amounts which may be invested in securities of the government of India out of the coin and bullion received for currency notes. In 1891 the amount that could be so held had been fixed at 80,000,000 rupees, so this act released 20,000,000 silver rupees from the currency reserve and replaced them by a corresponding amount in securities.

On September 11, 1897, the Government issued a notification by which they undertook to receive at the reserve treasuries sovereigns and half sovereigns and to issue rupees in exchange at the rate of 15 to the pound sterling.

(3) Acts Nos. II and VIII of 1898 authorized the issue of notes in India against gold held in London by the secretary of state as a reserve to secure the payment of such notes. This was designed as a temporary measure of relief to a stringent money market in India, and was only granted for two years, but it was renewed for two years in 1900; and made permanent in 1902.

(4) The Indian currency committee of 1898-99, presided over by Sir Henry H. Fowler, M. P., reported in favor of gold being made legal tender in India, and Lord George Hamilton, in a dispatch dated July 25, 1899, recommended it to the Indian government.

By Act XXII of 1899, sovereigns and half sovereigns coined at any royal mint were declared legal tender in India at the rate of 1 sovereign for 15 rupees.

(5) Acts Nos. VIII of 1900 and IX of 1902 gave the secretary of state power to purchase silver with the gold so deposited and transmit it to India for coinage, and also authorized the issue of notes in India against silver bullion held in England by the secretary of state as a reserve to secure the payment of such notes.

#### GOLD AND SILVER UNDER THE NEW CURRENCY LEGISLATION.

The first payment of gold by the public at the currency reserve in exchange for rupees and currency notes, under the new currency legislation, was made in March, 1898, and amounted to £170,280. In February, 1899, the amount paid in was £797,750, and in March £917,811, and the total amount in the reserve on March 31, 1899, was £2,035,448, so that at that date the gold standard at 1s. 4d. the rupee

may be considered as having been completely established. On January 22, 1903, the gold in the reserve amounted to £7,443,000. In the House of Commons on March 12, 1903, Lord George Hamilton stated that since gold was made legal tender in India 25,282,000 sovereigns had been received by the government of India, 18,825,000 of these had been issued, of which 7,000,000 were sent to England and 11,825,000 were issued to the Indian public.

The following table shows the amount in the currency reserve at the undermentioned dates:

*Gold in currency reserve.*

Mar. 31, 1898	£170,280
Mar. 31, 1899	2,035,448
Mar. 31, 1900	{ 7,791,019
	{ 1,500,000
Sept. 30, 1900	8,791,618
Mar. 31, 1901	7,115,047
Sept. 30, 1901	5,771,000
Mar. 31, 1902	7,109,000
Sept. 30, 1902	6,079,000
Jan. 22, 1903	7,443,000

In 1900-1901 gold to the amount of £4,000,000 was withdrawn from the currency reserve and remitted from India to England and sold, and £1,600,000 purchased in London and held there as part of the currency reserve was released. In 1901-2 £2,500,000 of gold was remitted to London, partly for investment in consols on behalf of the gold-reserve fund and partly for other purposes. The gold that went to India came principally from Australia and South Africa. It is evident that as the surplus gold of Australia, namely, the amount for export after the local wants have been provided, is to a considerable extent shipped by steamers touching at Colombo on their way to Europe, it is frequently an advantage to land it at Colombo and send it to Calcutta or Bombay rather than incur the expense of sending it to London when it is wanted in India.

The question may be asked, Why did the gold find its way to India at all? It has been shown that the gold standard at 1s. 4d. became effective early in 1899 by the operation of two causes, namely, by the contraction of the Indian currency and by increased supplies of gold in 1898 and 1899 flowing into the gold-money countries and also into India, and these two causes have been in operation ever since. The contraction of the currency, if left alone, or the increased supplies of gold, if acting separately, would very soon raise the rate of exchange to 1s. 4½d. and higher; but when the rate reaches 1s. 4⅓d. the exchange banks ship gold to India because there is a profit in gold that is tendered there, and when the rate rises to 1s. 4⅓d. the banks can pay the expense of shipping gold to India and have a small profit, in addition to which they get rupees out of the reserve for the purposes of their exchange business. When in this manner the banks pay in gold and get rupees in exchange these rupees are passed into circulation, and thus the rate is continually kept from rising, except fractionally, above 1s. 4d. doing so. Practically speaking, the rate will never be allowed to rise to 1s. 4¼d. except on some sudden emergency and for a very brief period, because competition will step in and cause gold to be shipped at 1s. 4⅓d. The reason is that a rupee can be got at the currency reserve in India for every 1s. 4d. On the other hand, as it is impossible to keep the rate at any fixed figure, such as 1s. 4d.,

<sup>a</sup> Held in England on behalf of currency reserve.

it will frequently rise fractionally above and fall fractionally below that figure.

In connection with the par of exchange for the trade with the gold countries, and the stability of the rate of 1s. 4d. under the new currency policy, the following table is interesting:

*Rates of council bills drawn on Bombay.*

Official year.	Highest.	Lowest.	Variation between highest and lowest.
	<i>Pence.</i>	<i>Pence.</i>	<i>Pence.</i>
1889-90.....	17 $\frac{1}{2}$	16 $\frac{1}{2}$	1
1890-91.....	20 $\frac{1}{2}$	16 $\frac{1}{2}$	4
1891-92.....	17 $\frac{1}{2}$	15 $\frac{1}{2}$	2
1892-93.....	15 $\frac{1}{2}$	14 $\frac{1}{2}$	1
1893-94.....	16 $\frac{1}{2}$	13 $\frac{1}{2}$	3
1894-95.....	13 $\frac{1}{2}$	12 $\frac{1}{2}$	1
1895-96.....	14 $\frac{1}{2}$	13 $\frac{1}{2}$	1
1896-97.....	15 $\frac{1}{2}$	13 $\frac{1}{2}$	2
1897-98.....	16 $\frac{1}{2}$	14 $\frac{1}{2}$	2
1898-99.....	16 $\frac{1}{2}$	15 $\frac{1}{2}$	1
1899-1900.....	16 $\frac{1}{2}$	15 $\frac{1}{2}$	1
1900-1901.....	16 $\frac{1}{2}$	15 $\frac{1}{2}$	1
1901-2.....	16 $\frac{1}{2}$	15 $\frac{1}{2}$	1

The highest rate of exchange obtained for council bills drawn on Bombay was 1s. 4 $\frac{1}{2}$ d. in both January and February, 1899, after which the rate fell off until again it reached 1s. 4 $\frac{1}{2}$ d. in October, November, and December, 1899; 1s. 4 $\frac{1}{2}$ d. in January, 1900; 1s. 4 $\frac{1}{2}$ d. in February; but in January, 1901, it had fallen to 1s. 4 $\frac{1}{2}$ d. In the official tables the quotation for highest and lowest rates on Bombay are given to smaller fractions than those for Calcutta and Madras.

It will be seen, therefore, that the variations in exchange were very great before the closing of the mints, and that from 1893 up to 1899 the variations were still considerable. In the three years since March, 1899, when the rate of 1s. 4d. became effective, the annual variations between the highest and lowest rate have only been from  $\frac{1}{2}$ d. to less than  $\frac{1}{2}$ d. This remarkable stability in the rate of exchange is of the very greatest importance for the external trade of India and for the government finances, and it is accompanied by comparative stability in Indian prices of commodities for the external and the internal trade. Under normal conditions there will always tend to be a natural contraction of the currency, and the only method by which this contraction can be overcome is by adding rupees to the currency, and new rupees can only be obtained by importing gold and exchanging it at the reserve, and then, as too much gold accumulates there and the supply of rupees becomes depleted, gold is withdrawn from the reserve, and silver is bought with it and coined into rupees. On the other hand, when gold is produced in increased quantity in the world, it tends, by means of the gold exchanges, to flow to all places where there are mints open to receive gold, and by this process the Indian rate of exchange rises; but the gold itself passing to the Indian reserve, and having rupees exchanged for it, checks the rise and lowers the rate of exchange by increasing the volume of the currency.

India being, therefore, on the gold standard, its currency follows the course of gold. When there are large supplies of gold India gets its share of the gold and Indian prices of commodities rise with prices in the gold countries. For some time to come, at least, there is every

probability that the supplies of gold will tend to increase, so that Indian prices are likely to be more than maintained for a considerable time to come. India has now a system of currency which very closely resembles that of France; it has a gold currency and reserve; it has a silver currency, namely, rupees of unlimited legal tender; gold can be tendered at the reserve, but not silver, and while it will take gold in exchange for rupees, it is under no obligation to give out gold in exchange for rupees. It must be understood that there is no mint for gold in India, but as most if not all of the Australian gold comes to India in the form of sovereigns, the coinage of gold in India is unnecessary.

So long as the rate of exchange had not reached 1s. 4d., no gold was shipped to India for currency purposes, and after it began to be shipped a large amount had to pass into the currency reserve in exchange for rupees before the proportion of gold in the reserve became so great and that of rupees became so limited that the government had to withdraw gold and sell it for silver to be coined into rupees for the currency reserve. In 1899-1900, however, purchases of silver were made in England for the government of India to the amount of £405,000. In 1900-1901 the purchases in England amounted to £5,649,924, of which £1,600,000 represented the value of silver purchased by gold previously held in this country as a reserve to secure the payment of currency notes issued in India. In 1901-2 the purchases in England only amounted £2,900. In India the total purchases of silver during the above period amounted to about £1,250,000. The whole of the silver purchased in 1899-1902, amounting to about £7,300,000, was coined, in addition to uncurrent and native coins valued at about £4,900,000. The profit to the government on the coinage of new rupees is placed to the gold-reserve fund, which now consists of £4,052,561 in consols.

#### AGRICULTURE UNDER THE CURRENCY LEGISLATION.

The chief object which was aimed at by the act of 1893 was to arrest the fall in exchange, and this became the more necessary after 1890 owing to the excessive supplies of silver that found their way to India from that year onward in spite of the large purchases of that metal by the United States from 1890 till 1893. Up till this period the conditions of the internal trade of India had been, comparatively speaking, normal and only the gold exchange and the trade with the gold countries had been affected. But the increased supplies of silver, as shown in the table of net imports into India, now threatened to have a substantial effect on Indian prices. The closing of the mints stopped the flow of new rupees into the currency and warded off the apprehended rise of prices while it initiated the movement that ultimately brought the exchange to 1s. 4d. In 1895 average prices in India were at 105, the highest point reached since 1874, when 105 was the index number, the prices of 1873 being taken as 100. As will be seen in the table of Indian index numbers, the prices in 1900 at 107 and in January, 1901, at 111 are higher than any number in thirty years, so that the generally accepted view that the adoption of the gold standard at 1s. 4d. has led to a fall in prices is entirely erroneous, and is at the bottom of most of the misconceptions as to the effect of the currency policy in India.

If the rates of interest of the Bank of Bengal are considered it will be found that in 1899 and 1900 they reached 10 and 12 per cent per annum in the first four months of both years; in 1891 and 1892 they

were very low; in 1894 they were as high as 11 per cent; in 1895 and 1896 they reached 8 per cent; in 1897 and 1898 they were very high, and in 1899, 1900, and 1901 they were moderate—that is, not exceeding 8 per cent, and that only in two months in each year. It has already been explained that in 1898 the Indian government authorized the issue of notes in India against gold held in London by the secretary of state as a reserve to secure the payment of such notes. This enabled the banks to deposit gold in London, and at once receive notes or rupees in India, thus giving a means of relief for a stringency in the money markets in India, which had not been hitherto available. It is probable that further experience of the working of the currency policy may induce the government to provide further means of relief in times of stringency. The official figures of the Bank of Bengal show, however, that in the three years since the 1s. 4d. rate became effective there has been no exceptional monetary stringency in India.

One of the most important questions to be considered is the effect of the new policy on the internal economy of India. Statements have been circulated very widely in both the English and the Indian press that the government, in order to keep up the rate of exchange for their payments in gold, have sacrificed the interests of the trading, the agricultural, and industrial classes. Fortunately, though these statements are vague, they are capable of being brought to a complete economic test. If the people of India have suffered injury from this policy, this injury must be visible in their economic condition. Of course it must be borne in mind that questions in no way connected with the currency policy are beyond the scope of this paper. But the broadest test of all that can be applied to the Indian people is the prices which their products command. Almost the whole influence that currency can exercise in a country working on civilized methods is to raise or lower the average prices to be obtained for commodities, or, what is the same thing, to make money more abundant or less abundant. What, then, has been the course of Indian prices since the closing of the mints, and particularly since the rate of 1s. 4d. became effective in 1899? Let us take 10 leading articles of production, all of which are also articles of export, and nearly all products of agriculture, namely, cotton, cotton yarns (20's), rice, wheat, opium, indigo, jute, gunny bags, linseed, and tea. The average of the prices of these 10 articles for 1873 is taken as 100, and the figures following show whether prices have risen or fallen in the last thirty years. The detailed figures for each article can be seen in *Prices and Wages in India* and in Mr. O'Connor's *Annual Review of Trade*:

*Index numbers of ten leading articles of export at Calcutta.*

[The prices of 1873 are taken as 100.]

Year.	Index number.	Year.	Index number.	Year.	Index number.
1873.....	100	1883.....	93	1893.....	120
1874.....	112	1884.....	109	1894.....	114
1875.....	105	1885.....	97	1895.....	110
1876.....	100	1886.....	99	1896.....	108
1877.....	113	1887.....	91	1897.....	114
1878.....	113	1888.....	99	1898.....	97
1879.....	114	1889.....	110	1899.....	90
1880.....	114	1890.....	106	1900.....	108
1881.....	110	1891.....	95	1901.....	108
1882.....	105	1892.....	112	1902.....	107
Average of 10 years ..	109	Average of 10 years ..	101	Average of 10 years ..	108

That is the economic history of these 10 leading articles for thirty years, and from the point of view either of the producer or the trader they must be regarded as eminently satisfactory. The first twenty years—that is, 1873 to 1892—with an average of 105, will be admitted by all who have a knowledge of the subject to have been a period of great prosperity to the people of India, while in the second ten years the average (101) is lower than in the first (109) and the third (108), though the first ten years and the third ten years have practically the same average. In the list of these 10 articles there are two to which special attention ought to be directed, namely, tea and indigo.

The prices of both have fallen considerably—tea in consequence of overproduction, and indigo in consequence of the competition of a chemically prepared article. It is evident that the currency policy had nothing to do with bringing about these low prices. The simple fact in regard to tea is that the increased supply was considerably beyond the demand for it at the previous prices, and lower prices had accordingly to be accepted. It has been already remarked that, so far as the great mass of the people of India are concerned, all that the government can do is to provide a basis of currency which will be just or unjust according to the volume of money in circulation, and the supreme object at which economists aim in connection with currency is to find a system that will maintain comparative stability in general prices, and thus do complete justice between producer and consumer. It must be remembered, at the same time, that a currency system can only provide a basis for general average prices of commodities, while supply and demand must regulate the prices of individual articles. The Indian government have supplied a currency basis which ought to give comparative stability in average prices, but the movements in the prices of each individual article are entirely beyond their control. It so happens that no country in the world can show such a stable range of prices as these 10 articles in India in the last thirty years. Another series of index numbers of practically all the articles of export and import at Calcutta has been partly quoted to the same effect, but perhaps it may be well to show also how cultivators have fared in connection with the prices of 7 food grains, as calculated from official tables:

*. Indian prices of rice, wheat, jawar, bajra, ragi, gram, and barley at selected centers.*

[Prices in 1873 are taken as 100.]

Year.	Index number.	Year.	Index number.	Year.	Index number.
1873.....	100	1893.....	129	1897.....	209
1883.....	97	1894.....	114	1898.....	140
1887.....	118	1895.....	121	1899.....	137
		1896.....	164	1900.....	195
1889.....	120	Average .....	132	1901.....	160
1890.....	121			Average .....	168
1891.....	137				
1892.....	147				
Average .....	132				

Averages of periods per annum:

1873-1882 .....	121
1883-1892 .....	118
1893-1901 .....	152

We see, then, that these seven food grains have risen in the last five years to an average index number of 168, although famine has to be

taken into account during this period. But at least it is worthy of notice that the four years before the closing of the mints and the four years after had the same average index number, namely, 132, while in 1901 the number was 160. Hence it may fairly be concluded that the closing of the mints had no effect whatever on the price of food grains in the four years after the closing, and the much higher prices of the last five years do not make a proper comparison, as they include a famine period. It ought to be explained, however, that these prices are taken at a number of selected centers, mostly in the interior, where improvements in communication and other local causes have doubtless contributed to the rise in prices. These prices in the interior would not, however, be selected to show changes due to currency causes, as for the latter purposes prices would be taken at Calcutta or Bombay. But at least they show higher prices to the cultivator, whereas it is frequently alleged that the currency policy has produced lower prices.

So far, then, as the ten leading articles of export, almost all derived from the soil, are concerned, and the seven leading food grains, the adoption of the gold standard has, in my opinion, made very little change, and it ought to have made very little change. The position of the cultivator has, therefore, been in no way impaired since 1893. Indeed, it has been improved in the last five years by higher prices for food grains and by higher prices generally in the last ten years than in the previous ten.

#### THE INDIAN CURRENCY COMMITTEE OF 1898-99.

In 1897 the French and American Governments made proposals to the British Government that if the Indian mints were reopened to silver at the ratio of 1 of gold to  $15\frac{1}{2}$  of silver, and if certain quantities of silver were agreed to be held by the Government or by the Bank of England, then these two Governments would open their mints to silver. The proposals were submitted to the Indian government, but the latter felt themselves unable to accept the terms, and immediately on receiving this decision the home Government closed the negotiations. The average price of silver in 1897 was  $27\frac{9}{16}$ d., and the proposals of the two Governments contemplated the opening of the French, American, and Indian mints at 60.84d. The change would certainly have been enormous, but perhaps some practicable method of arriving at that high price, or at a lower price, by slow degrees, might have been devised if the negotiations had really been taken up in earnest.

A considerable amount of agitation in favor of reopening the Indian mints had taken place ever since 1893, though public opinion was divided on the subject, and at last, on March 29, 1898, the Hon. Vicary Gibbs moved in the House of Commons for a select committee or royal commission to be appointed to consider the monetary condition of India and the effects of closing the mints. Lord George Hamilton responded by acknowledging the need for inquiry, but he objected to a select committee or a royal commission and consented to appoint a departmental committee. This committee was appointed on April 29, with Sir Henry H. Fowler, M. P., as chairman, the entire committee consisting of 11 members. In the meantime proposals from the Indian government in regard to dealing with the currency were published. They contemplated the melting down of rupees so as to contract the currency with rapidity and certainty, and it was proposed that 10 crores of rupees should be melted down at a time and the silver bullion

sold, while gold was to be bought, £5,000,000 at a time, and substituted in the currency for the melted rupees. It is unnecessary to deal with these proposals in detail, as in the meantime the rate of exchange went on improving and the monetary position had soon changed to such an extent that the reasons for melting rupees rapidly disappeared and the whole of the proposals were abandoned.

The currency committee took evidence in 1898 and in the earlier part of 1899. On July 7, 1899, they issued their report, but in the meantime in February and March the arrivals of gold at the currency reserve were very large, and on March 31 the gold in the reserve amounted to £2,035,448. The report practically approved of the then existing system that had arisen by the closing of the mints, but before the committee made their report the gold standard at 1s. 4d. had already been firmly established. Their principal recommendation was that gold should be made legal tender, and that was accordingly carried into effect, the result being that India obtained both a gold standard and a gold currency. The great mass of the circulation, however, consisted of silver rupees as tokens, so that the Indian currency now responds under an automatic gold system to the movements of gold in the gold countries. The currency reserve takes in all gold tendered and gives out rupees at 1s. 4d. in gold per rupee. When, therefore, the exchange rises to the shipping point of gold to India, gold is shipped. The Indian currency is as completely automatic as that of any of the gold countries, such as England or France, though this most important point seems to be but very little understood. There is no more interference with the automatic character of the currency in India than there is in England. At the same time it ought not to be lost sight of that there is only merit in a currency being automatic if the volume of money is such as to do justice to both debtor and creditor. An automatic currency that works great injustice is bad, and a nonautomatic currency that enables justice to be done is good. Currency is merely a means to an end, and that end is justice.

It is somewhat strange to have to record that most of the witnesses before the currency committee who testified as to the method of establishing the gold standard expressed the opinion that it could only be introduced if a loan of from £10,000,000 to £30,000,000 were made to provide gold to secure its successful introduction. Not a single witness foreshadowed the manner in which the Indian currency at last found itself firmly established on a gold basis, without any loan and with no difficulty whatever, by the mere automatic contraction of the currency until the exchange rose above 1s. 4d. to the shipping point of gold, and gold flowed in as often as the exchange reached that point. In this manner more gold flowed into the currency reserve than the Indian government knew what to do with, and they had to sell about £7,250,000 of gold in 1899-1900 and 1901-2 so as to purchase silver to be coined into rupees.

#### LABORERS AND WAGES.

As Indian prices of agricultural articles of export have been shown to be comparatively unchanged during the last thirty years, though higher on the average of the last ten years than of the previous ten years, this is a perfectly clear demonstration of the fact that the policy of closing the mints has not caused a fall in prices, as is so frequently alleged. The cultivator, therefore, with somewhat increased prices for his products, has no valid complaint to make against the

new departure in currency. The increased prices of the seven chief food grains emphasize still further that the cultivator has had a decided advantage in respect of these.

It is evident, therefore, that if the currency policy has maintained stability in prices, that is a complete vindication of the policy so far as industries and agriculture are concerned. Now the question comes, How has the laborer been affected by this policy? So far as prices of the necessities of life are concerned, the cultivator has had the advantage of somewhat higher prices in the last ten years, and the laborer has had to be at some disadvantage in having to pay these higher prices. But the general impeachment of the policy is that it has produced lower prices and increased the burden of the cultivator. This view is, however, entirely disproved by the facts.

The laborer has, it is true, some complaint in so far that the prices of food have been higher in the last ten years, but it must be considered that there have been other causes at work to raise prices, namely, drought leading to famine, and also plague. The other question that is of vital concern to the laborer is his wages. A general examination of the statistics in "Prices and wages in India" does not reveal any very marked change in wages since 1893. There are many variations during that period and there has been some advance, but there is no proof whatever that the currency policy has affected wages, though other causes have doubtless had some influence upon them. And judging by the fact that the Indian basis of currency is now the same as it was before 1873, and has been ever since 1873, and that prices are also on much the same level, with a somewhat higher range during the last few years than in the last thirty, the conclusion to be arrived at is that the currency policy of the last ten years has given great stability in prices and wages, which means great stability in the monetary conditions under which agriculture and industries are carried on, and under which taxes and duties are levied. Open mints would have produced greatly inflated prices, whereas the new policy has maintained stability in prices and wages, and no currency policy could have accomplished more.

But it may be well to consider what the effect would have been on the internal economy of India if the mints had not been closed and if India had continued on the silver standard along with China, Hongkong, the Philippines, Indo-China, the Straits Settlements, the Federated Malay States, and Mexico. The bullion value of the rupee to-day is about 8½d., and if the mints had remained open and silver had flowed freely in for coinage it is safe to assume that the rate of exchange of the rupee would not now have been higher than 11d. That is to say, it would have required, with the rupee at 11d., 145 rupees to make a purchase of commodities that with the rupee at 1s. 4d. only requires 100 rupees. The payment of the home charges would have required 45 per cent more rupees than are needed to-day; all debts and fixed amounts at interest in rupees would have been repaid in rupees of a purchasing power of 30 per cent less than the purchasing power of the rupee of to-day. Then the prices of the exports and imports at Calcutta, and the seven chief food grains, regarding which I have quoted the figures, would have been raised 45 per cent higher than the prices of to-day, or than the average prices of the last thirty years.

The result would have been a very serious advance in general prices, in which the cultivator would have gained at the expense of the other classes. That would have been a change due to an inflated

currency, whereas the present stable range of prices that has practically existed for more than thirty years demonstrates that the Indian currency has been for that period, as it is to-day, a stable currency more stable, indeed, than any other currency in the world. However, if the mints had been kept open we should have had an appeal to the home Government to defray a part of the expenses of the government of India. The addition to the taxes necessitated by this monetary dislocation would have been so great that at the time the statesmen of India did not see the possibility of finding new sources of taxation for the purpose, or of increasing existing taxes in any manner adequate to the prospective requirements. In the debate in the House of Commons on March 29, 1898, Lord George Hamilton used these words: "What was the position that the late government had to face? I do not want to use language too strong, but India was unquestionably on the verge of bankruptcy. She could not pay her way and one of two things was inevitable, either that she would be unable to meet her obligations or that this country would have had to come to her aid." Now, if that was the position of India, and it can not be doubted that it was, when the mints were closed and when silver was at 39d. and the rate of the rupee exchange was 1s. 2½d., what would it have been to-day if the rate had fallen to 11d. and prices were 45 per cent higher than they are? By the adoption of the new policy India saved itself from a great national calamity which would inevitably have overtaken it if the mints had been kept open.

The Indian ryot is entitled to every consideration, and his interests must always be a subject of great solicitude to any Indian government. But the Indian laborer is entitled to even more consideration, because, unhappily, his life is spent on the borderland of starvation. Now, with open mints the ryot would have received vastly increased prices for his produce, prices to which he had no claim whatever; but where would the enormous class of laborers and their dependents have found the money to pay these greatly increased prices? Wages would not have risen *pari passu* with increasing prices, and there would have been a great amount of dislocation in the internal economy of India and widespread suffering among the laborers and their dependents, who, as has already been stated, are much worse off than the ryots. In periods of drought as soon as there is no longer any employment for laborers the latter and their dependents immediately have to be supported by the government, but while the whole of the laboring classes in the famine districts have to be supported only a small percentage of the total persons relieved are ryots and their dependents. The consequence is that the laborers are in far more need of protection and consideration than the ryots, and under the present currency policy they have both had justice done to them, the ryot by having higher prices for his products and the laborer by having the benefit of somewhat increased wages and fairly stable general prices.

#### THE CURRENCY POLICY AND SILVER ORNAMENTS.

It has been already remarked that no important change can take place without causing some injury, though the benefits may vastly outweigh the drawbacks. There is no doubt that natives who possessed silver ornaments—and most of them would have some ornaments—were placed at a disadvantage by the closing of the mints. At the same time the disadvantage has been greatly exaggerated. When the famine commissioners were investigating into the views of the

natives as to their ornaments, they did not find that any serious objection was taken by the ryots to the mints being closed. Their view was that they could replace their ornaments at a cheap rate when times improved. Had the mints remained open the rupee would not to-day be higher than 11d., whereas the injury done to the natives is frequently described as if his loss consisted in not being permitted to tender ornaments at the mints and receive in return rupees worth 1s. 4d. each. Thus immense percentages of loss are stated which will not bear examination.

The loss on ornaments is nevertheless a very serious matter, and it must be regarded as the one great disadvantage of the closing of the mints. The silver in a rupee is to-day worth about  $8\frac{1}{4}$ d., and 11d. may be regarded as a very high estimate for the rupee if the mints had remained open, as the amount of silver that India absorbed in the form of currency when the mints were open was not very great, probably not more than Rx.2,000,000 or Rx.2,500,000 at most per annum, when the net imports did not much exceed Rx.6,000,000.

As soon as famine set in the scanty store of ornaments in the possession of the laborers proved but a slender resource, and the latter almost immediately went on the relief works. The statistics of the Indian mints, however, show that it was only in famine times that country silver and ornaments were sent to the mints in any quantity that called for special remark, so that only for a limited amount of silver ornaments was advantage ever taken of the mints, though of course they would be salable everywhere on the basis of the mint price. At present ornaments are only salable at their value as silver; but as there are silversmiths everywhere throughout India, there is a current price for silver in every village. It is to be deplored that the natives should sustain any loss on their ornaments, but the act that closed the mints to their ornaments also closed the mints to an enormous increase in the prices of the necessaries of life, and thus saved them from evils infinitely greater than any they can have sustained by the mints having been closed to their ornaments.

#### CONCLUDING REMARKS.

The question of the currency policy and its results may now be summed up in a very few sentences. When the mints were closed the rate of exchange was falling rapidly, owing to two causes—the increase in the purchasing power of gold and the increase in the net imports of silver into India. From 1873 until 1892 Indian prices of commodities were comparatively stable, but the process had then set in by which rupee prices of commodities began to rise in response to the increased quantities of silver arriving in India. As gold was thus becoming more valuable, and more and more rupees had to be raised by taxation to defray the home charges, that was a difficulty which could no longer be trifled with. And as the rupee itself was becoming less valuable, owing to increased supplies of silver, as was shown by the rise in Indian rupee prices of commodities, this threatened to lower the rate of exchange and to raise Indian prices to a very material extent.

Therefore, to arrest the rise in Indian prices due to excessive supplies of silver, with the very great probability of further large supplies becoming a permanent factor in the currency, and to arrest the further fall in exchange owing to the increasing purchasing power of gold, the mints were closed. It has been shown in the

course of this paper that Indian average prices have been comparatively stationary for the last thirty years, whereas if the mints had remained open they would now have been at least 45 per cent higher than they are. It has been shown that the change in the currency basis of the rupee, as valued in gold, from the former par of 1s. 10½d. before 1873 to 1s. 4d. at present is a fall of 30 per cent, 1s. 4d. in gold to-day purchasing the same amount of leading commodities in London as 1s. 10½d. did thirty years ago. Therefore a rupee to-day purchases just about the same amount of average Indian commodities as it did thirty years ago. Whereas in the gold countries general prices are to-day 30 per cent lower than they were thirty years ago owing to the relative scarcity of gold, India has escaped any such misfortune by taking a new par of exchange, namely, 1s. 4d., exactly 30 per cent below the former one, so that India has thus placed itself on an automatic gold system without any currency change in the purchasing power of the rupee. This is the crux of the whole question. India has passed on to the gold standard, but at a changed valuation in gold for the rupee by which stability is maintained for average prices, a result that no other country in the world can show for the last thirty years.

The Indian government have, wittingly or unwittingly, established a currency policy that, considering the present range of gold prices in London and rupee prices in India, could hardly be improved upon from the currency point of view. Average prices have been comparatively stationary, agriculture and the industries have all benefited from this stability, and so far as currency is concerned there has been quiescence and not dislocation in the internal economy of India. Wages have, on the whole, somewhat advanced, and the laborer has had his reward, while the comparative stability of general prices has been an immense benefit to him. He has lost something in the value of his ornaments by the mints being closed, but, on the other hand, if the mints had been open and he had received a higher price for his ornaments, he would have had to pay at least 45 per cent more for the necessities of life.

The conclusion, therefore, that follows from the foregoing facts and figures is that the closing of the mints was in the circumstances inevitable, and in its results was one of the most fortunate events in Indian history, as it provided the means of maintaining the economic position of the Indian agriculturist, laborer, manufacturer, and trader unchanged and unimpaired, so far as any currency policy could accomplish that object, and at a time when but for this policy India would have passed on to currency conditions which would have produced national disaster.

#### V.—Coinage, Currency, and Exchange in 1903.

[From the Indian Financial Statement for 1903-4, India office, May 8, 1903.]

82. During the past year our coinage operations, as regards rupees, have been limited to recoinning rupees of the 1840 issue and coining on account of native states. The amount thus coined on government account up to the end of February was 7,09,44,122 rupees, and for native states 2,98,86,000 rupees. It must be remembered that the coinage undertaken on government account added nothing to our circulating currency.

83. Since the beginning of the current calendar year there have been very heavy demands for money, in great part in connection with the

disposal of the bumper rice crop in Burma and the large cotton crop in Bombay and central India. These demands have been largely met by the increased sale of council drafts, which will reach, according to our revised estimate, the total of £18,261,000, comparing as follows with those of preceding years:

	Amount.
1901-2 .....	£18,539,071
1900-1901 .....	13,300,277
1899-1900 .....	19,067,022
1898-99 .....	18,692,377
1897-98 .....	9,506,077

But this large sale of council bills has by no means sufficed to meet the demand on foreign account for rupees in India, and very considerable sums in gold, amounting to approximately £4,500,000, have been shipped to India, chiefly from Australia, up to the end of February, besides a total net importation of silver bullion, up to the same date, approximating £4,000,000. Of the silver importation, however, a large amount was for dollar coinage and for consumption in the country, but a certain proportion was apparently imported by speculators for a rise in silver, as a profitable method of remittance.

84. Our currency balances have naturally been strongly affected by the bullion importations and demands for rupees, and our reserve of silver coin fell from 15,55,66,000 rupees on November 30 to 9,01,73,000 rupees on February 22, while the amount of gold held increased during the same period from £5,801,389 to £8,464,599. The stocks of both silver and gold have, however, since increased, the former to 9,90,90,000 rupees, and the latter to £9,073,853 on March 7. In view of the large importations of gold bullion and the decreasing stock of silver coin, we decided at the end of February to purchase £300,000 of silver in London, so as to be fully prepared for the coinage of rupees should circumstances require it and our then existing stock of silver prove insufficient. At the time that we made the purchase, besides our stock of rupees in the currency reserve, we held in the two mints approximately 1,15,00,000 rupees in withdrawn 1840 rupees and silver bullion and bars obtained from the melting of such withdrawals. Our purchase was, therefore, simply a precautionary measure, and I allude to the fact to show that we are not unmindful of our responsibilities in the matter of providing currency.

85. During the year our gold reserve fund has increased from £3,454,246 to £3,810,730, and substantially the whole of the latter amount is now invested in consols. The fund is increasing slowly, but satisfactorily.

86. Our exchange operations, as indicated by the rates obtained for council drafts, have been very favorable during the closing year. The average rate, to date, for the rupee has been 16.002d., as compared with the rates noted below for the four preceding years:

	d.
1898-1899 .....	15.978
1899-1900 .....	16.067
1900-1901 .....	15.973
1901-1902 .....	15.987

87. I may point out that our position, as regards currency and exchange, is now somewhat as follows:

We have virtually relegated our rupee currency to the position of a token currency, and we are now practically in the position of bankers who have issued a certain amount of fiduciary currency (whether paper or metal is immaterial), and to maintain the value of this

fiduciary currency we are bound to be in a position to exchange it for gold when presented for conversion to meet legitimate trade requirements. As I have already mentioned, we hold in the gold reserve fund a sum of £3,810,730, and in the currency reserve we have about £9,073,853 also in gold. The gold in the currency reserve flows freely in and out, according to circumstances and monetary conditions, but the demand for the metal is generally small. Gold coins, though demanded by bankers, seemingly chiefly for remittance purposes, are apparently but rarely used in local circulation, and private demands for export are limited by the action of government in curtailing the sale of council bills whenever exchange approaches export point, gold being remitted, when necessary, to the secretary of state in substitution for sales of council bills. The position of gold in the Indian currency reserve may, I think, be compared with that of gold in the Bank of England, which is held at the free disposition of the public, the difference being that the demands in India are comparatively small for the reasons I have given. The gold in the gold-reserve fund is held under conditions more nearly resembling those under which gold is held by the Bank of France. It will only be when the temporary curtailment of council bills is found insufficient to check a fall in exchange, and when the gold in the currency reserve is exhausted, i. e., when the balance of indebtedness is seriously adverse to India to an extent that we need hardly anticipate, that any serious demand can arise on the gold-reserve fund.

There are both advantages and disadvantages in having a silver instead of a paper fiduciary currency. The silver always has an intrinsic value of high proportion to the nominal value of the circulating medium, but that value is fluctuating and has an unfortunate present tendency to depreciate. A note has no intrinsic value and there can therefore be no question of fluctuation in its value.

## APPENDIX H.

### THE CURRENCY SYSTEM OF FRENCH INDO-CHINA.

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#### I.—EXTRACT FROM UNITED STATES CONSULAR REPORTS, FEBRUARY, 1903.

Mr. Paul Leroy Beaulieu, the eminent political economist, has published an article in which he recommends that the Government of France make a monetary change in the coin used in Indo-China similar to that made by the British Government in India in 1893. He shows that the piaster of that colony, which ten years ago was worth 5 francs (96 cents), has fallen with the decline of silver until it is now worth less than half that sum. He advises that its value be placed at 50 cents. This is about 25 per cent more than its current value, but he thinks that with the cessation of coinage and the increase of population and business, it can be maintained at that figure. He asserts that during the last few years Indo-China has been inundated with Mexican coins. He advises that hereafter such coins should be outlawed and that all the piasters of the country, of domestic or foreign origin, should be recast in 50-cent pieces.

The finances of India are regarded as being on a gold basis, with the silver rupee as the unit of value, representing one-fifteenth part of the gold contained in the sovereign. A gold reserve of some £9,000,000 (\$43,800,000) is held for the purpose of keeping the rupee at par with gold. It is altogether probable that the proposal of Mr. Beaulieu in regard to the finance of Indo-China will be adopted by the French Government, but he does not propose a gold reserve.

JOHN C. COVERT, *Consul.*

LYONS, *January 10, 1903.*

#### II.—THE FALL IN THE PRICE OF SILVER AND THE MONETARY QUESTION IN INDO-CHINA.

[Report presented in the name of the committee on exportation by M. G. Laguionie, adopted and embodied in resolutions by the Chamber of Commerce of Paris in its sitting of May 13, 1903.]

[Translation.]

The monetary question in Indo-China has for some time provoked in France serious discussion. Special periodicals like the *Économiste Français*, the *Revue des Deux Mondes*, the *Journal des Chambres des Commerce*; colonial papers, the *Quinzaine Coloniale*, the *Questions Diplomatiques et Coloniales*, the *Dépêche Coloniale*; great Parisian journals, the *Temps*, the *Débats*, have explained and discussed it many times; well-informed monographs like Mr. Rueff's *La Question du Métal-Argent*; pamphlets such as those of Messrs. Denis Brothers and Albert Cornu have been published about it; learned societies, the *Société d'Économie Politique*, the *Société d'Économie Industrielle et Commerciale*; meetings of specialists like the *Union des Anciens Élèves des Écoles Supérieures de Commerce de France* have given it great attention. It was, moreover, part of the programme of the

colonial congress of 1903. Lastly, a commission made up of representatives of the different ministries, appointed by the minister of the colonies, was directed to discuss it again and to prepare a solution.

On the other hand, the chamber of commerce of Lille has presented to our society a report, which it has embodied in a resolution, on the monetary situation in Indo-China, and we have been asked by the *Chambre du Commerce d'Exportation* to give our support to the measures it recommended in order to counteract the fall of silver bullion and which are set forth in a very carefully prepared report which has been sent to us.

It is because this question interests not merely economists through the special problems that it raises with reference to monetary systems and the coinage and the circulation of moneys, its solution has an intimate relation to the interests of one of our richest colonies as well as to important enterprises at home.

Therefore your Commission has thought that it might be interesting and useful to set forth the main points and the principles of the case, and to offer from the numerous documents that are now published a general survey of the question with the conclusions that it suggests. It is this paper that its representative has the honor to submit to you to-day.

The monetary question in Indo-China is only a particular instance of a more general proposition—that of silver. The solutions adopted for the latter having an influence on the former, it is necessary to briefly set forth the elements of that problem.

#### *I.—Origin of the question of silver bullion and its importance for France in particular.<sup>a</sup>*

For several years silver bullion has been suffering a decline, which in certain countries has involved a disquieting monetary crisis.

From 1860 to 1868 the quotations were maintained at about 61d. the standard ounce. Toward the middle of 1876 they fell to 46 $\frac{3}{4}$ d., and to 42d. in 1889; and successively to 28 $\frac{1}{16}$ d. in 1894 and 27 $\frac{3}{4}$ d. in 1901, and at last to 21 $\frac{1}{2}$ d. in 1902; in other words, 40d. difference, or 66 per cent, in thirty-five years.<sup>b</sup>

Everybody is agreed on the principal cause and the origin of the crisis in the silver market. It is due, for the most part, to the over-production of the mines. In fact, the fall of silver has not prevented the production of this metal from maintaining itself at its extraordinarily high point.

Mr. Arnauné, the learned head of the mint, divides the history of precious metals into four great heads.<sup>c</sup>

<sup>a</sup> It is not the first time that the attention of the chamber of commerce has been attracted by this question of silver. As early as 1870, before a commission of inquiry established for that purpose, one of its members, Mr. Carlhian, made a statement in which he seems to have foreseen the present difficulties; and in 1874 Mr. Gustave Roy, who had become in 1872 the colleague of Mr. Carlhian in the chamber of commerce, of which he was to become the chairman, presented to our society a paper on bimetallism and the inconveniences of silver money, the conclusions on which to-day retain their full force. (Archives of the chamber of commerce.)

<sup>b</sup> The decline occurred in successive phases: 1 $\frac{3}{16}$  from 1860 to 1872; 4 $\frac{7}{16}$  from 1873 to 1877; 1 $\frac{1}{4}$  from 1878 to 1882; 5 $\frac{1}{16}$  from 1883 to 1887; 3 $\frac{1}{16}$  from 1888 to 1892; 8 $\frac{1}{16}$  from 1893 to 1897; 4 $\frac{1}{8}$  from 1898 to 1902. (M. Raffalovich, communications to the Society of Industrial and Commercial Economy, sitting of December 19, 1902.)

<sup>c</sup> Report to the minister of finances, 1902, by M. Arnauné, director of the administration of coins and metals. (Library of the chamber of commerce.)

The first period, which ends with the Middle Ages and is interesting for students only.

The second, which starts at the great discovery of Christopher Columbus and closes in the middle of the nineteenth century.

The third, which would comprise exactly a quarter of a century if we fix its limits at 1850 and 1875.

Finally, the fourth period, beginning in 1875, is the one during which the production of silver has reached tremendous proportions.

From 1493 to 1851 production was estimated at 149,826,750 kilograms; 1851 to 1871, 31,000,000 kilograms; 1875 to 1891, 97,260,000 kilograms.

The result is that the production of silver during these last twenty-five years equals more than half of that which has been produced in three hundred and fifty-eight years, or almost four centuries.

However, overproduction is not the only cause of the fall in silver. There are others (quite as important)—the closing of the mints to the unlimited coinage of silver in most civilized countries; England's suspension of free coinage in India; and the fact that silver has been relegated to the level of a subsidiary coin.

Lastly, the clause of the recent treaty with China imposing upon that country the obligation of paying in gold the war indemnity and the establishment in Siam of the gold standard have not been without influence in bringing about the fall in the price of silver bullion.

Whatever be the causes of this decline, there is at any rate an abnormal situation which might provoke, with us in particular, a serious crisis. In fact, the stock of silver currency of the Bank of France, which one may consider as representing the overflow of our monetary circulation, was estimated on December 4, 1902, at the sum of 1,100,000,000 francs (\$214,000,000).<sup>a</sup> It is easy to understand, therefore, that economists should have been stirred up by this situation and that some of them should have looked to the solution of the monetary question in Indo-China for a means of mitigating its danger.

## II.—*Origin and importance of the monetary question in Indo-China.*

The crisis in relation to silver could not but have an influence on the situation in Indo-China, where silver currency is the principal instrument of transactions.

<sup>a</sup> M. de Foville estimated in 1898 the probable value of silver currencies existing in France as follows:

[Dictionary of Commerce, Industry and Banks, folio 825.]

	French.	Foreign.	Total.
	<i>Francs.</i>	<i>Francs.</i>	<i>Francs.</i>
5-franc pieces.....	1,380,000,000	555,000,000	1,935,000,000
Subsidiary coin .....	205,000,000	35,000,000	240,000,000
Total.....	1,585,000,000	590,000,000	2,175,000,000

At about the same time the stock in hand of the Bank of France was composed as follows:

	Francs.
French pieces of 5 francs .....	795,000,000
Belgian pieces of 5 francs .....	232,000,000
Italian pieces of 5 francs .....	173,000,000
Swiss pieces of 5 francs .....	4,000,000
Greek pieces of 5 francs.....	7,000,000
Total.....	1,211,000,000

Two monetary systems are juxtaposed, and to a certain degree combined, in Indo-China—the one of native origin, the other of European origin.

According to Mr. Arnauné the native system is of great theoretical perfection. It comprises coins of gold, silver, copper, and zinc, which almost all correspond exactly with the systems of weights of Annam. The gold and silver coins have even the names of weights. On the other hand, the government does not claim to fix the relative value of gold and silver. Some currencies have, indeed, the indications of their value in copper or zinc currency, but it seems that it is only to indicate their redeeming power for the payment of taxes. The private citizens are free to accept them for a greater or less quantity of small coins.<sup>a</sup>

The sapeques (alloys of copper, zinc, and tin) are made in the imperial mints. The gold and silver coins are also made in the government mints, but individuals share with the Prince the right of melting gold and silver bars and putting them into circulation.

Beside the native monetary system is to be found the system of the piaster, which is that of the French administration and of European commerce. The piaster does not circulate in Indo-China merely; it is the currency of foreign commerce in China and in the whole Far East. It was introduced by the Spaniards, who, having no commodity to present in exchange for the Chinese trade, offered their piasters.

It is through the French army of occupation that the Mexican piaster, identical in weight and in standard to the old Mexican piaster, was, if not introduced, at least propagated in Annam for the needs of the troops, this currency, well known to Chinese commerce, being the only one that they were willing to accept in payment for the supplies delivered to the army.

The sapaques of zinc were used at first, but that coin is extremely inconvenient. "It took an artillery baggage cart to exchange 1,000 francs of ligatures of sapaques, since they represented not less than the weight of a barrel and a half, and in the market a chicken weighed sometimes less than its price in coin."

Since that time the Mexican piaster has been partly replaced by a piaster called commercial or Indo-Chinese piaster, coined at the Paris mint at the weight of 27 grams and of the standard of 0.900 fine.

In 1859 the commercial piaster was worth intrinsically 5.31 francs, in taking 218.89 francs for the value of the silver kilogram. In 1892, silver bullion having fallen to 139 francs, the coin was not worth more than 3.38 francs; to-day, at the price of 80 francs, its intrinsic value is 1.944, and it is to be feared that it will decline still more if, as is the opinion of certain economists, the depreciation of silver is to continue.

### III. *Consequences of the Indo-Chinese monetary system.*

Of such a régime the inconvenience and even the dangers may easily be seen. It is a régime of monetary instability and insecurity, and is not less dangerous to the Indo-Chinese Government than to our local or home commerce and to the development of our colony.

From the budgetary standpoint, receipts being calculated in piasters and the expenditures being largely calculated in francs, the equi-

<sup>a</sup> See *La Monnaie, le Crédit et l'Echange*, by M. Arnauné, from which we have borrowed these and the following details, Ch. VII, pp. 281 et seq. Felix Alcan, Paris, 1894.

librium disappears when the piaster falls. It may happen that the administration gets taxes at the rate of 214, for instance, and pays expenses at the rate of 232 in currency, thus a loss of several thousand piasters resulting.<sup>a</sup>

From the commercial and industrial standpoint the fluctuations of exchange make of the most carefully prepared operations mere speculations, which have no solid base and can be neither foreseen nor calculated.

As to the imports, the cost of production of imported goods should be increased in proportion to the decline of silver from the date of purchase to the day of payment. But the selling price can not always be increased, at least immediately, in proportion to this decline. It follows, therefore, that the importing merchant runs the risk of meeting the difference. Moreover, inasmuch as cash sales are not usual, if the piaster has declined between the day the bargain was concluded and the day of payment, the seller suffers a new loss when he wants to convert his money into gold in order to make payments in Europe.

Finally, when the merchant is able to raise his prices after the fall of the piaster, it is the consumer who pays the increase, unless he prefers to restrict his purchases on account of the increase in prices; and in this case the imports fall off. And since these imports come mostly from France, it is, then, French industry and commerce which suffer.

The exports of the colony into gold-standard countries may, when the white metal falls, be momentarily facilitated by the play of the same forces which paralyze the imports from the same countries. But, on the other hand, as Messrs. Denis Brothers point out, the fall of the piaster is fatally followed by an increase of prices on the part of the producers, an increase which soon annuls this favorable influence. This rise has, moreover, the consequence of hampering the exports toward silver countries.<sup>b</sup>

Business men suffer another way from the depreciation of silver. Since they had to transform into piasters the capital that they brought from Europe when they settled in Indo-China, it follows that every decline in the value of the piaster results in a reduction of their capital.

The employees and officials who invest their savings in France are exposed to losses of the same kind. It may happen that at the time they are sending what they saved on their salary the price of the piaster be below the price at which their salaries were paid to them.

Lastly, as M. Paul Leroy-Beaulieu has strongly pointed out, in order to develop a colony it is necessary to bring into it the capital and technical capacity which are indispensable to the development of riches in a new country. Capital is brought into tropical colonies only with the intention of carrying it back again into the mother country, and therefore it is easy to understand that if one runs the risk of having only a depreciated currency at the time it is necessary to bring back this capital—a time, by the way, which one can not always choose and which is imposed by circumstances—he hesitates to send it abroad.

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<sup>a</sup> According to the Bulletin de la Chambre de Commerce de Saigon, the average rate of the piaster for the first four months of 1902—January to April—was 2.32, while that of the last seven months—May to November—was only 2.14. (Denis frères—memorial to the ministry of the colonies, Quinzaine Coloniale, January 10, 1903.)

<sup>b</sup> Quinzaine Coloniale, January 10, 1903.

This evil, the causes of which we have explained, necessitated a remedy, and economists, colonial writers, importers, and exporters have endeavored to find it. But if they are agreed on the existence of the evil, they are divided as to the means of conjuring it.

#### IV. *The solutions proposed.*

Three methods have been proposed, which it is proper to examine:

1. The status quo.
2. The introduction of the 5-franc piece into Indo-China.
3. The adoption of a special régime based on the stabilization of the price of the piaster.

(1) *The status quo.*—This system is in truth strongly supported by no one. Even those who, like M. le Myre de Vilers, refuse to look upon the situation created for Indo-China by the monetary question in a pessimistic light, admit that there are modifications to be made.<sup>a</sup> They merely point out that the evil in Indo-China is generally exaggerated. Pessimistic accounts are contradicted by the growing prosperity of the colony. The inconveniences of exchange, undeniable as far as the importing merchants are concerned, do not exist in the same degree for the exporters. But if one sets apart the exceptional years like those through which we have just passed, when the sending of the materials required by great public works has caused a rise in importations, the balance is settled by a surplus in favor of exportation. The equilibrium will be reestablished when the programme of public works, which, in the opinion of a few, have perhaps been prematurely and imprudently begun, shall be completely finished.

The budget, it is true, might be difficult to establish with the present régime; but why not modify the collection of taxes by decreeing that the general budget shall be paid in francs, while the local budgets shall be paid in piasters, taken at the quotations of the day? It might seem that this would not be overtaxing the natives.<sup>b</sup>

This solution, or, rather, this absence of solution, leaves untouched the principal criticisms directed against the present régime, relating on the one hand to the monetary instability—which is as disturbing to commerce as tariff instability—and on the other hand to the timidity or abstention of capital tempted to seek investment abroad. Furthermore, if one were to seek for the situation a remedy in the increase of taxes, one would not merely attempt something that is easier to discuss than to realize, but also “treat too contemptuously the general interest of the country, with whose moral as well as economic welfare we are charged.”<sup>c</sup>

Lastly, from the purely theoretical standpoint the maintenance of the status quo, by maintaining an ill-defined silver monometallism, would leave our colony exposed to new crises in the future in the face of the Asiatic powers, like Japan and Siam, and of most countries that have adopted the gold standard or a true bimetallism.

<sup>a</sup> M. le Myre de Vilers proposes as his plan to call an international conference to which the representatives of the different silver countries would be invited. (Questions Diplomatique, Jan. 1, 1903.) One will see that his idea has already been adopted by Mexico.

<sup>b</sup> According to M. Chailley-Bert, the population of Indo-China pays to-day less than 5 francs taxes per capita, and there is no power in Asia that does not ask more from its subjects. (Quinzaine Coloniale, Jan. 10, 1903.)

<sup>c</sup> A. Cornu, Memoirs to the Minister of the Colonies. (Quinzaine Coloniale, Jan. 10, 1903.)

(2) *Introduction in Indo-China of the 5-franc piece.*—This system is proposed by Mr. Jules Rueff, who, in a series of pamphlets, articles in periodicals or newspapers, lectures or discussions, has explained and supported it with as much conviction as talent.

Replace the coins presently in use by the 5-franc piece—such is the remedy that Mr. Rueff proposes for the monetary crisis of Indo-China. This radical measure must be accompanied by preparatory or subsequent measures.

1. Suspension of the coinage of the piasters of commerce.
2. Constitution in the treasury of an important fund of 5-franc pieces and of subsidiary coins.
3. Prohibition of the introduction into the colony of foreign piasters.
4. Placing of a duty on silver in bars.
5. Counting the fiduciary currency in francs.
6. Fixation during the transition period of a rate of conversion for the piaster of commerce as well as for the Mexican piaster.
7. Introduction at the same time of the French subsidiary currency and then of the 5-franc pieces.

This solution, which M. Rueff proposed as early as 1892, would solve, according to him, all the difficulties amidst which our colony is struggling. It would realize at once in a complete manner the object sought by commerce and the Government. Having a stable currency, the value of which is based on the credit of France, the merchants would not have to fear any longer the uncertainty of exchange nor the treasury have to fear any falling off in the revenue from taxes.

The effects of the reform would not be less beneficial for the metropolis. The enormous stock of silver of the Bank of France, dead weight for the present, an incumbrance and a danger for the future, would be soon absorbed by Indo-China. M. Rueff estimates theoretically at forty years the duration of this work of absorption of the French surplus, but this time, according to him, would be greatly reduced in practice.

Lastly, France would have made one more step toward monetary unity from which, up to the present day, our possessions in Indo-China, India, and the coast of Somales are alone shut out.

These primary advantages would be supplemented by secondary advantages that are not, however, to be overlooked. The operation would not require the constitution of a special gold fund in Indo-China, the 5-franc piece, "a true metallic assignat," being redeemable at sight from the gold fund of the Bank of France. This could be operated without a loan. It would not require any new coinage and would suppress the profit taken by the mines and the middlemen.

The Mexican piasters having been driven to China or sent back to their own country, it would remain to get rid of the stock of the piasters of commerce. These piasters are doomed and destined to be melted into bullion. This is an inevitable necessity, but a happy necessity, according to M. Rueff,<sup>a</sup> if it were decided to act quickly. The fall in silver not yet having reached its term, the loss will be the greater as the moment of liquidation is further postponed.

The loans of the colony reach the sum of 200,000,000 francs—that is, 9,000,000 of annual interest at  $4\frac{1}{2}$  per cent. There remains to be issued a sum of 80,000,000, so that in a short time the annual debt of

<sup>a</sup> Rueff. *La Question du Metal Argent*, Paris, 1902.

the colony will be, on that account, raised to 12,600,000 francs, without counting the other expenses also to be settled in Europe annually in gold. Those are large liabilities, if one considers that Indo-China has to meet it with a currency which is every day more and more depreciating.<sup>a</sup>

Such is, in its essential features, this system from which its author expects a rapid improvement of the monetary situation in Indo-China and in France. Attractive as it may seem, it should be said that it has not gained the largest number of supporters. Serious objections have been addressed to it—objections of principle and objections of substance.

In the first place, under which conditions will this currency be sent to Indo-China? Gratuitously? This would be a too easy manner of diminishing the silver fund of the Bank of France. As a loan? The colony is already debtor to the mother country, and its already heavy expenses would be increased by the interest to be paid, as Mr. Rueff himself acknowledges.

But let us suppose the reform enacted. It will have against it the hereditary habits of the natives. Annamites and Chinese, in the strong words of Mr. Cornu, "live in piasters," and it is always difficult and sometimes impolitic to fight against inveterate habits. The survival in France, in popular usage, of the ancient units of measure and of weight, the impossibility which England has encountered up to the present time of adopting the metric system in spite of the acknowledged defects of the English systems are sufficient evidence of that fact. If one admits that these preferences of form will modify themselves, that the natives will adopt the 5-franc piece as they have adopted the bank note, as they will have to adopt the metric system, the adoption of which has been decreed for Cochinchina, there is still another inconvenience which it is impossible to overlook and which by itself is capable of wrecking the reform.

In the countries of the East, where the most varied types of currency circulate, where coinage is free, where the coins often bear no indication of their purchasing power, the only thing that gives its value to a coin is the weight. The scale is the indispensable instrument of all transactions that are not settled in goods. Therefore the introduction of a 25-gram piece to which the law should attribute the value of  $2\frac{1}{2}$  piasters, that is, of the weight of 68 grams of silver, could not be accepted by the natives, and would invoke a veritable revolution.<sup>b</sup>

On the other hand, the difference between the real value and the face value of the coins being so plainly shown would encourage the fabrication of false coins, an industry that is, so to speak, current in all the countries of the Far East.<sup>c</sup>

If one considers the facilities offered by the frontier—1,500 kilometers long—between China and Annam for smuggling, and on the other hand the premium that would befall even a manufacturer of "false sound money,"<sup>d</sup> we realize that there is another grave obstacle to the reform.

<sup>a</sup> Raphael Georges Levy, reunion of the alumni of the French High Schools of Commerce (Petit Temjes, March 6, 1903). See also the article in the *Revue des Deux Mondes*, of April 1, 1903.

<sup>b</sup> Raphael Georges-Lévy, *Compte rendu de la reunion des anciens élèves des Ecoles supérieures de Commerce de France*. (Petit Temps, Mar. 6, 1903.)

<sup>c</sup> Depincé, *Idem*.

<sup>d</sup> Coins, that is, of the right standard and the right weight, but coined fraudulently by private persons.

Moreover, the system of Mr. Rueff has been tried and the test did not prove favorable. In 1864 the Government tried to introduce into Cochin-China our 5-franc pieces. "By reason of the difference existing between the price at which the treasury continued to receive our 5-franc coins and the price that the 5-franc piece had in Indo-China, those pieces soon went back again to the mother country to the great benefit of the changers and the cambists, whose business it is. The same would happen to-day."<sup>a</sup>

Lastly, even the advantages of the combination strictly from the French monetary standpoint seemed to some people contestable or delusive. It is observed, in our opinion justly, that the establishment of the gold standard is the end to be sought, that the abandonment of the Latin Union is desired by many sound minds, and that the moment seems ill chosen to enlist Indo-China in that union.<sup>b</sup>

Mr. Rueff seems concerned mostly about the liquidation of our surplus stock of 5-franc pieces, represented by the silver fund of the Bank of France. We understand this preoccupation, but "by ridding France of an excess of 5-franc pieces and endowing our Indo-Chinese enterprise with that currency," is it for the good of France or for the good of our colony that M. Rueff would work? And then how could something that is bad<sup>c</sup> for the metropolis be good for Indo-China?<sup>d</sup>

Finally, from what precedes it appears that the system advocated by Mr. Rueff, with a tenacity and a competence to which we have already rendered homage, does not seem likely to solve practically and equitably the monetary crisis in Indo-China.

(3) *Establishment of a special régime—Stabilization of the piaster.*—The majority of the economists have accepted the proposition of a special régime which M. Paul Leroy-Beaulieu, with the high authority that he enjoys in financial matters, has advocated before the public.<sup>e</sup>

M. Paul Leroy-Beaulieu, who devoted to the subject two articles of *L'Économiste Française*,<sup>f</sup> advocates the stabilization of the commercial piaster at 2.40 or 2.50 francs<sup>g</sup>—that is to say, at the price it had before the present decline.

This system has, first, the advantage of having been tested in a country near Indo-China—India—and of having given good results. "The monetary régime of India since 1893 is well known," writes M. Paul Leroy-Beaulieu. "Free coinage is suppressed; that is to say, that the mints do not coin any more silver for private parties. The

<sup>a</sup> Mr. Rueff finds the reason of this failure in the exact official ratio established by the administration between the value of the piaster and that of the franc, and in the fact that silver was then more in demand than gold and that it was difficult to send large quantities of coins from France, the Suez Canal not being constructed at that time. The situation is no longer the same to-day. (*Journal des Chambres de Commerce*, Jan. 19, 1903.)

<sup>b</sup> G. Manchez, *Petit Temps*, March 6, 1903.

<sup>c</sup> A condition that might have been avoided if in 1876 the conclusion of Mr. Roys's memoir had been taken into consideration.

<sup>d</sup> Raphael Georges-Lévy (*Petit Temps* of March 6, 1903) and Siegfried, *Société d'Économie Industrielle et Commerciale* (sitting of January 23, 1903).

<sup>e</sup> We will quote Messrs. Siegfried, Raffolovich, Raphael Georges-Lévy, Georges Manchez, Yves Guyot, Cornu, Chailley-Bert. We must add that there is not complete unanimity on the means of realizing the reform. Some, like MM. Cornu and Chailley-Bert, propose, although in different proportion, the constitution of a gold fund in Indo-China. The committee of commerce and industry of Indo-China has accepted likewise this solution, but a certain number of its members, however, declare that they continue to believe that the Rueff system would be preferable.

<sup>f</sup> Copies, January and January 17, 1903. See also Report of the *Société d'Économie Politiques*, sitting of February 5, 1903.

<sup>g</sup> M. Cornu, in *La Quinzaine Coloniale*, thinks that figure is too high.

Government has assigned to the rupee, the monetary unit of India, a value of 1s. 4d., or about 1 franc 65 centimes, accepting a depreciation of 30 per cent on its primitive value, and it seeks to maintain the rupee at this value, in itself a fictitious one, of 1s. 4d. It obtains this result now by coining silver coins when the country is prosperous and money in demand, and by suspending the coinage when the business of India is less flourishing. The English have, in fact, succeeded in stabilizing the price of the rupee, and the fluctuations in recent years are not greater than the fluctuations of exchange in the gold countries.<sup>a</sup>

The same results might be obtained in Indo-China by the adoption of the following measures:

1. Suppression of the free coinage of Indo Chinese piasters.
2. Prohibition of the importation of Mexican piasters.
3. Transformation of foreign piasters into Indo-Chinese piasters.
4. Suppression of the tax of 3 per cent that exists now on the exportation of silver.

To insure the efficacy of these measures the Government must temporarily give up the coinage of new coins. At the end of a few years, or about six years, according to M. Leroy-Beaulieu, the amount of currency in circulation will become insufficient. It will be possible to make at that time, "with moderation and prudence," a new coinage, and even to introduce some gold pieces.

But silver must remain for a long time—for several generations—the regular currency as long as wages shall not have increased three or four times and wants have not been considerably enlarged.

Thus the monetary problem of Indo-China would be settled for a long time through a measure which would not exclude the changes that the future may make necessary<sup>b</sup> through a process that has been tested, while respecting the form of the piaster which has become dear to native habits. Security and stability would be assured for commercial enterprise to the capital invested in industry or agriculture, and to the salaries of officials and the income of the colony, as well as with the 5-franc piece.

But it is necessary to hasten to put an end to the silver crisis in Indo-China. Every day's delay is a loss for the mother country, which must continue to pay a part of the expenses of the colony—the military expenses; for the local budget, which must pay its gold loans with a currency that is more and more depreciated; for the capital invested in enterprises of all kinds, commercial or otherwise, whose interest suffers a constant diminution and which are no longer supplied by metropolitan capital, deterred as it is by the perspective of a realization which would be ruinous.

The chamber of commerce of Lille and the Chamber of Commerce of Exportation have reached nearly the same conclusion as Mr. Paul Leroy-Beaulieu.<sup>c</sup>

Three main objections were addressed to this system. According to M. Rueff<sup>d</sup> it is only a half measure, a provisional solution. If the

<sup>a</sup> *Économiste Français*, January 3, 1903.

<sup>b</sup> Certain supporters of the system of stabilization, for instance, M. Manchez (whose views we share on this point), foresee the establishment in our colony of the "gold standard," which is from the monetary standpoint the purest expression of civilization and credit. (*Petit Temps* of March 6, 1903.)

<sup>c</sup> The Chamber of Commerce of Exportation asks, moreover, that a gold fund be established, formed in part with the profit which would be obtained from the new issues of piasters.

<sup>d</sup> Session of the Société d'Économie Industrielle et Commerciale of December 19, 1902.

piaster is stabilized at 2.40 or 2.50 francs, since it is to be feared that silver will continue to decline, it will be necessary in a few years to stabilize it again at 1 franc 50 centimes; hence a new crisis and new losses, unless, in order to save the situation, the occasion is taken to constitute a special gold fund in Indo-China, an operation that might be avoided by the introduction of the 5-franc piece. To this M. Leroy-Beaulieu answers that silver will not decline indefinitely, that owing to the depreciation of the metal the mines would cease their production or diminish it.<sup>a</sup>

Moreover, the industrial uses of silver, which are pretty much restricted now, but capable of great extension, will contribute to maintaining or raising the price of the metal.<sup>b</sup> The unsettled countries like Africa, which have only a rudimentary currency, may, on the other hand, absorb a part of the stock existing in the form of currency. As to the Indo-Chinese piaster, in a country where the population is increasing, where exchanges increase, and with them the need for currency, its value must needs maintain itself if its further coinage is suppressed or restricted.

Another objection is drawn from the difference existing between our colony of Indo-China and India, whose example is proposed to be followed. India has a much larger population. The fourth of the Indian budget goes back to England. Will what has succeeded in India succeed in Indo-China? Yes, answers Mr. Yves Guyot,<sup>c</sup> for there is only one way of raising the price of a merchandise—that is to make it more scarce. The coinage of the rupee was suspended in India and its price rose. In proceeding in the same manner with the Indo-Chinese piaster, in accordance with the law of supply and demand, the same results will be attained.

Some have shown some concern about the disturbance that the exclusive adoption of the commercial piaster might cause in our relations with China, accustomed as she is to the Mexican piaster and to various types of currency. Are we not going to run the risk of discontenting or of losing a customer?<sup>d</sup> Such an event is not to be feared, according to M. Leroy-Beaulieu. In the first place, China takes from us a certain quantity of products which are indispensable—like rice—which she is bound to buy from us, because she would not find them elsewhere under such favorable conditions. And then one might quote here the famous formula of Jean Baptiste Say: "Goods are paid for with other goods, and as to the settlements on one side and on the other bankers are there to attend to them. They do their work with diligence, exactitude, and little expense."<sup>e</sup>

#### V.—*Conclusions.*

Such is, in its general outlines, the monetary question in Indo-China, and such are the means which have been proposed for solving

<sup>a</sup> *Économiste Français* of January 17, 1903. Events seem to have already supported M. Leroy-Beaulieu, for silver, which at the date when the report was written was quoted about 80 francs, has gone up to 89-91 francs. (*Journal Officiel*, May 9, 1903.)

<sup>b</sup> The industrial market of silver may increase if the high and the somewhat extravagant taxes, as in the case of France, on the industrial uses of that metal are lowered. Paul Leroy-Beaulieu, *Économiste Français*, March 14, 1903.

<sup>c</sup> *Société d'Économie Politique* of February 5. See also the report of the reunion of the former students of the French High School of Commerce, *Petit Temps* of March 6, 1903.

<sup>d</sup> One might have the same fears with the 5-franc piece.

<sup>e</sup> *Économiste Française* of January 17, and *Société d'Économie Politique*.

it. Your reporter has endeavored to set them forth with exactitude and impartiality, seeking to omit nothing which, midst the mass of documents published on the subject, might seem interesting and practical.

In order to give a sanction to the discussions which the question raised, the minister of colonies appointed, on December 6 of last year, an interministerial commission. This commission, presided over by Mr. Pallain, governor of the Bank of France, chose as reporter M. Arnauné, director of the mint.<sup>a</sup>

It comprises the most prominent persons of the financial and colonial world, and there is good reason to expect from its work a definitive settlement of a question which affects at once our finances, our colonies, and our exports.

The commission is reported<sup>b</sup> to have already considered measures to balance the budget of the colony. We are firmly convinced that it will do its best to meet the needs of business by assuring the monetary security and stability that are indispensable to its development.

However, without claiming to dictate solutions, your committee on exportation has thought that in the documents published on this subject it had elements sufficient for forming an opinion, and that the importance of the commercial interests at stake gave it a legitimate reason for formulating its views.

Therefore, from the point of view especially of the interests which our society has in charge, it has the honor to submit to you the following resolutions:

“The Chamber of Commerce of Paris, in view of the fact that the diversity of coins in circulation in Indo-China is a source of complication and embarrassment for the treasury, and that the fluctuation of the rate of exchange has created in our colony a state of instability and insecurity detrimental to commercial transactions;

“Whereas long-term operations in particular with the mother country, payable in francs, are made very uncertain through the variations in the exchange value of the piaster, hampering not merely the importers of the colony, but the commerce of exportation as well;

“Whereas home capital is frightened away from Indo-China by the prospect of a realization that might mean serious risks on account of the uncertainty in exchange, which checks alike the development of the colony and of home enterprises;

“Whereas under these conditions a solution which will terminate this state of affairs should be brought about within a short time in the interest of our commerce as well as that of our finances and our colony;

“Whereas this solution must be looked for in a system capable of prompt enforcement, which insures monetary stability without interfering with the habits of the natives and with respect for established customs;

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<sup>a</sup>The commission is composed as follows: Messrs. Pallain, governor of the Bank of France; De Liron d'Airolles, deputy governor of the Bank of France; Laurent, general director of public accounts; Delatour, director of the caisse des dépôts et consignations; Bénac, director of the mouvement général des fonds; Arnauné, director of the administration of coins and medals; Dubard, director of the control at the ministry of the colonies; Block, director of accounts at the ministry of colonies; Vasselle, director of matters relating to Asia, America, and Oceania at the ministry for the colonies; Frezouls, director of customs and taxes in Indo-China; Simon, director of the bank of Indo-China; Guernaut, subdirector of the mouvement général des fonds.

<sup>b</sup>Chailley-Bert, *Quinzaine Coloniale*, January 10, 1903.

“Whereas, however, it is necessary to consider at once the desirability and the possibility of replacing in Indo-China the silver standard by the gold standard, the Chamber expresses the view that free coinage should be abolished in Indo-China; that the commercial or Indo-China piaster now existing be decreed the only legal tender in Indo-China; that the Government, following a system which has succeeded in India in a like situation, should proceed to stabilize the commercial piaster; that as to the fixing of the ratio and the preliminary steps to be taken, in which it is proper that entire latitude should be left to the Government, account should be taken of the views formulated by the industrial and commercial interests of Indo-China and by the representatives of domestic commerce.

“Lastly, that a gold fund destined to pave the way for the ultimate adoption of the gold standard be constituted with the profits derived from the new coinage of piasters.”

## APPENDIX J.

### THE CURRENCY SYSTEM OF THE PHILIPPINE ISLANDS.

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#### I. "THE CURRENCY OF THE PHILIPPINE ISLANDS."

[By Charles A. Conant, in the *Annals of the American Academy of Political and Social Science* for November, 1902.]

The American Government found in the Philippine Islands, upon their cession by Spain, a condition as chaotic in monetary affairs as in civil administration. The Philippines were upon the silver standard, but they had little coinage of their own, either legal tender or subsidiary. The supply of legal-tender money consisted chiefly of Mexican silver dollars. The Spanish Government, in order to limit the fluctuations of exchange, had in 1877 prohibited the importation of any Mexican dollars which were issued after that date. This provision was, however, so persistently evaded that it exercised little influence upon the monetary system of the islands. Gold disappeared under the pressure of depreciated silver, and after 1884 practically none remained in circulation.

An effort had been made by the Spanish Government to provide a local currency, but the project had been only partially carried out. This project consisted of the coinage of a few Spanish-Filipino pesos and their subdivisions, supplemented in a small way by the Spanish subsidiary coin. The pesos were lighter than the Mexican coins, but as their quantity was not more than sufficient to supply the currency needed in the islands the pesos circulated at par with the "Mexicans." It was fortunate for the islands that these coins, by reason of their light weight, were not exportable to advantage as bullion, and therefore remained in circulation when other forms of money tended to disappear. A few subsidiary pieces corresponding to the silver pesos had been coined by the Spanish Government exclusively for use in the Philippines. The other subsidiary pieces, however, and most of the minor coins were the same as those used in Spain. The peseta piece of Spain, worth nearly 20 cents in American money, was at one time maintained at this value in Spain, and even when Spanish finances became deranged did not decline in its exchange value in gold so rapidly as the Mexican silver dollar. The consequence was to destroy the relationship between the Mexican dollar and the subsidiary coins. The Spanish peseta came to be worth about 15 cents in gold in Spain, while as a quotient part of the Mexican peso it would pass for perhaps 10 cents or less in gold value at Manila. The result of these conditions was to tempt shrewd bankers to gather up all the Spanish subsidiary and minor coins in the Philippines and send them to Madrid, making in the transaction a profit in the neighborhood of 50 per cent. By such operations the Philippines were almost denuded of small

Spanish currency, and into this vacuum flowed to some extent the coins of the United States, having a recognized value of more than twice the corresponding pieces of Spanish and Mexican coinage.

Deficiency of currency, confusion in converting the natives to the comparative values of American currency, and wild fluctuations in the exchange value of foreign silver were the characteristic features of the monetary situation at Manila during the first three years of American occupation. The branches of two large English banks—the Hongkong and Shanghai Banking Corporation and the Chartered Bank of India, Australia, and China—controlled exchange, and many complaints were made by American officers and civilians against what they considered the excessive rates charged by the banks, but which were a natural outcome of the monopoly exercised by these banks and the constant fluctuations in the value of silver.

The Philippine Commission sought to give stability to the relations between American currency and local currency by prescribing that the Mexican silver dollars, the Spanish-Filipino dollars, and the quotient parts of these dollars in use in the islands should be received for public dues in the ratio of 2 Mexican pesos to \$1 in American gold. This policy achieved for a time a certain measure of success. So long as the value of silver bullion did not depart greatly from these proportions, the cost of transportation and the necessity for the use of some form of legal tender kept the silver coins at about this ratio in retail trade.

But worse difficulties arose in the summer of 1900. The forces of the western powers gathered at that time in great numbers at Tientsin for the rescue of the legations and the infliction of punishment upon the Chinese for their disregard of the privileges of ambassadors. The gathering of a large army with its commissary, medical, quartermaster's, and pay service necessarily required the use of money. A demand for currency was created in China which could not be met from the stock of Mexican silver dollars in use there nor be supplied promptly by the Mexican mints at their long remove from the place where the currency was needed. In consequence of these conditions, the exchange value of the Mexican pesos rose considerably above 50 cents in gold. This gave to them a higher exchange value around Tientsin than the official rate at Manila. Inevitably came into play the operation of the economic law that money will go where it has the highest value. Mexican coins were drained away from Manila at an alarming rate. Between August 27 and November 1, 1900, the two English banks exported \$2,087,500 in Mexican money, and the early days of November witnessed a revival of the outward movement. The country, already denuded of its small silver, faced a famine even in the remnant of its means of exchange. Various devices to check the outflow were adopted by the Philippine government, including a duty of 10 per cent on exported silver, but the evil only ceased when the forces of the powers began to depart from China and the demand for money was thereby diminished.

A counter movement in the relations of gold and silver at Manila now set in. The Mexican peso fell materially below 50 cents in gold and began pouring into the Philippines from China and the islands of the Pacific. The inevitable result was to drive out of circulation the American currency, which had come into use because there was no other available for carrying on trade in Manila. American currency began to disappear. It had been treated by foreign bankers from the

beginning as gold exchange on New York, as good as gold at London or Paris, and more convenient and transportable in the form of paper than in coin or bullion. American currency has come to be so well understood in the trading centers of the Orient that any form of it—gold and silver coins, greenbacks, or silver certificates—are alike called gold, because under the gold-standard law of March 14, 1900, they are the equivalent of gold in all markets. In Japan, where Chinese silver money is not readily accepted, I had a jinrikisha man refuse a Chinese 10-cent piece and gladly accept an American nickel with the exclamation, "Oh, yes; gold!"

It was with a view to rectifying the inconvenience which arose from these constant fluctuations in the medium of exchange in the Philippines that the writer urged upon Col. Clarence R. Edwards, the head of the division of insular affairs in the War Department, that some expert should be sent to the Philippines to study conditions there and to recommend a stable and satisfactory coinage system. After the adjournment of Congress in 1901 the subject was taken up by Secretary Root. The writer was requested by him to visit the Philippines and consult with the civil commission, with a view to making recommendations to the War Department to be submitted to Congress for its action. The Philippine government had already laid down the outlines of a project which seemed to them desirable for giving stability to the relations between the money of the Philippines and the gold standard of the United States. They stated in their annual report to the Secretary of War for 1900:

"It seems to be desirable that some substitute for the Mexican dollar, as well as for the Spanish-Filipino dollar, should be provided which would be uniform in its relation to the United States dollar and would commend itself to general public use as being substantially what they have long been accustomed to. We have interviewed a large number of leading business men of the islands, and they substantially all concur in the opinion that it would be injurious to business to place the islands immediately upon an absolute gold standard.

"As a solution to the problem it has been suggested, and the suggestion has met the approval of the business men here generally, that the United States dollar, or a theoretical United States-Filipino gold peso, of the value of half a dollar, like the theoretical gold yen which is the unit of currency in Japan, should be made the standard of value, but that a silver United States-Filipino peso, containing a small percentage less silver than the Mexican dollar, should be coined, which would be receivable in business transactions as the equivalent of 50 cents in United States money, together with convenient subsidiary coins of the same character. The amount of silver in the peso should be such a percentage less than that in the Mexican dollar that its intrinsic value would not at any time warrant its export from the islands, but its convertibility into American money at uniform fixed rates, guaranteed by the United States, would make it a convenient and useful currency for ordinary business transactions in the islands."

There were, broadly speaking, three alternative plans which it was possible to consider. One was the introduction of American gold currency as the sole legal tender in the Philippines; the second was the continuance of the silver standard, with the adoption of a distinctive American coin in place of the Mexican. The third alternative was to do nothing—to leave the islands subject to the difficulties of the existing coinage system and the ebb and flow of the currency supply under

influences beyond the control of the Philippine government or the commerce and finance of the Philippine Islands.

The introduction of American currency had warm advocates among some of the army officers, upon the obvious ground of the simplicity which it would introduce into their accounts. Owing to the rigidity of the accounting laws, much trouble was caused when it became necessary to pay for supplies in silver at any other ratio than two to one, or when silver was received in change or for the sale of supplies which could not be converted into American money at that ratio. The objections were strong, however, among business men and prominent native Filipinos to the introduction of American currency as the sole legal tender. The essential difficulty lay in the fact that wages and prices were on too low a scale to adjust themselves to a gold currency of such a high unit as the American dollar. The natives about Manila very generally grasped the puzzling fact that an American piece of 25 cents was equal in value to a piece of twice the size in local currency; but even when this was fully understood it did not obviate the difficulties arising from a high unit. What was said in my report to the War Department on this subject is pertinent to this article:

“Wages are expressed in such small amounts in the Philippine Islands, and many articles of necessity to the natives are sold for such trifling sums, that for small transactions even the American cent is too large a unit. It is necessary that the lowest unit of value should be a very small one. The centavo, which is recommended—equal to one-half of a cent—will meet this necessity. A native laborer, accustomed to receiving a peseta, or 20 centavos, for a day’s labor, would find an American 10-cent piece less suited to his wants, even though he was satisfied that it represented the same value. The reason would lie in the fact that the American coin would be less easily exchangeable for smaller subdivisions. The American 10-cent piece is the smallest silver coin which can be used with convenience, but the peseta, or piece of 20 centavos, is of twice its size, and is divisible into two pieces of about the size of the American 10-cent piece, each representing an exchange value of 5 cents in gold. As this difficulty was tersely put to the Schurman Commission in 1899 by Mr. Charles Ilderton Barnes, ‘If the agriculturists are paid in gold, they can not make that gold go around like twice the number of dollars in silver.’”

In Porto Rico, as was testified by Professor Hollander, the introduction of American currency as lawful money, in place of the Spanish, caused serious difficulties. It is obvious that such difficulties would be greatly intensified in the Philippines by reason of the wider area, the more numerous population, and its more varied character.

The evils of doing nothing—the continuance of the Mexican dollar as the standard—have been sufficiently illustrated by the narrative of what had already occurred. The other alternative—the continuance of the silver standard, with the substitution of an American silver coin for the Mexican—can better be discussed hereafter in connection with the action of the Senate Committee on the Philippines, which declared in favor of this plan. It is sufficient to say that the only essential advantage of a distinctive Philippine coin on the silver basis would be that the mints would be more accessible than when Mexican coins were used. Instead of going through the circuitous channel of the Mexican mints, silver bullion could be brought directly to Manila,

where it was to find its employment after conversion into silver coin. It was not possible, and it was not pretended, that the adoption of a distinctive American coin would do more to steady the relations between gold and silver than would arise from the elimination of this element of delay in the coinage of the Mexican mints. In other words, the adoption of a distinctive American silver coin upon the free-coinage basis would reduce the fluctuations of exchange merely to the fluctuations in the prices of silver bullion instead of subjecting them to the accidents of the supply of Mexican silver pesos.

Examination of the monetary conditions in the Philippines led the writer to accept the plan recommended by the Commission in its report for 1900, in its general scope, as the best solution of the difficulties prevailing there. It remained, after reaching this decision, to work out the details with Judge Henry C. Ide, the secretary of justice and finance in the Philippines, who had experienced similar difficulties in Samoa while serving there as one of the American commissioners. The plan prepared by Judge Ide and the writer was submitted to the Commission, carefully discussed and amended in trifling details, and was then transmitted (in November, 1901) to the War Department with the unanimous approval of the Commission, including the three Filipino members, who had just entered upon their service. These Filipino members were often consulted as to the practical operations of the project, and two of them were constituted a committee to suggest designs for the new silver coins.

The plan of the Commission, in its general outlines, embodied the following propositions:

"1. That there should be a distinctive Philippine coin of silver which should be legal tender for 50 cents in the gold money of the United States.

"2. That this distinctive silver coin should be known as the peso, should contain 25 grains of silver of the fineness of 0.835, and should be divisible into 100 equal parts, called centavos.

"3. That this coin should be issued by the government of the Philippine Islands in such quantities, to be determined by such government, as may be required by the needs of trade.

"4. That the distinctive coin should be maintained at par with gold by the limitation of the amount coined and by a gold reserve, to be constituted from the seigniorage derived from the coinage of silver bullion, and to be employed, in the discretion of the Philippine government, for the direct exchange of silver for gold, and in such other ways as may be necessary to maintain the parity fixed by law.

"5. That the Mexican silver dollar and other coins now in use in the Philippine Islands should cease to be legal tender after specified dates, and that the new silver coins and the gold money of the United States, where not otherwise stipulated by the contract, should be the sole legal tender for public and private obligations.

"6. That the new coinage should be executed as far as possible at the mint at Manila, and should bear distinctive devices expressing the fact that it is intended for use in the Philippine Islands."

It is difficult, in attempting within reasonable limits to define such a project, to cover all the possible questions which may arise in the mind of a reader regarding its operation and the means of making this operation effective. The essential monetary principle involved was that of a limited token coinage. The Philippine government, by controlling the output of silver coins, would be able to keep them constantly at

parity with gold by suspending the issue when they became redundant and resuming it when they became scarce. Redundancy or scarcity would be demonstrated to a large degree by the proportion of the coins paid into the treasury for public dues. Redundancy would be disclosed also by the presentation of the coins for redemption in gold, while scarcity would be disclosed by the presentation of gold to obtain the coins. If the supply of coins held in the treasury was entirely exhausted by the offer of gold, it would plainly indicate that there was something like a permanent deficiency in the coinage supply and that additional silver pieces should be coined. The coin proposed was made somewhat lighter than the Mexican peso, in order to afford a margin within which the bullion value might rise without encouraging such an exodus of the money of the islands as took place in the summer of 1900 to meet the needs of the armies of the powers. This margin, however, was not wide enough to offer any such considerable profit to counterfeiters as would be afforded by the introduction of American silver coined at the ratio of 16 to 1.

The plan of the Commission, with a report prepared by the writer, was submitted to Congress, with the approval of the Secretary of War. Secretary Root, referring to his expressions of the previous year, declared:

"Time has confirmed the opinion in which I then concurred with the Secretary of the Treasury that the wise course is to coin and pay out for Government uses pesos of a little less than the weight and fineness of the Mexican pesos of 377.17+ grains of pure silver, at the rate of 2 silver pesos for \$1 gold, the ratio now maintained in the islands between Mexican dollars and American gold dollars, and to maintain that same relation between the new coins and gold by exchanging gold for them at that rate.

"I am satisfied that such coins, being substantially identical in size and exchange value with the coins to which the people are accustomed, will pass into circulation, and that as rapidly as this is accomplished the business of the country will come upon a gold-standard basis representing a fixed relation between the proposed coins and American money."

The proposition for a coinage system was only a small part of the comprehensive plans of the Philippine government and of the War Department for bringing order out of chaos in the Philippines. One of the greatest constructive works of modern times lay before these officials and Congress, comparable only to the great work which the Earl of Cromer has so successfully carried out in Egypt. Provisions for substituting civil government for military rule, for reforming civil and criminal law, for giving a share in this government to the Filipino people, for regulating land titles and the future development of agriculture, for establishing mining concessions upon an equitable basis, for regulating the grant of valuable franchises, were all parts of the Philippine government bill upon which Secretary Root; Judge Magoon, the law officer of the division of insular affairs; Colonel Edwards, the head of the division, and Judge Smith, a member of the supreme court of the Philippines, worked assiduously for weeks during the early part of the session of Congress. Their work in turn was carefully reviewed, amended, and completed by Governor Taft when he brought to the aid of the officials in Washington his thorough knowledge of actual conditions in the Philippines, his vigorous personality, and his almost infallible judgment of what it was possible and desirable to accomplish.

The coinage plan prepared by the Commission and the writer and approved by the War Department was embodied in bills introduced on January 7, in the Senate by Mr. Lodge, of Massachusetts, chairman of the Committee on the Philippines, and in the House by Mr. Cooper, of Wisconsin, chairman of the Committee on Insular Affairs. Hearings were given by both committees to those interested in the subject, including the representatives of the English banks at Manila, who were naturally opposed to departure from the silver standard. The House committee adopted the plan recommended by the War Department and Governor Taft. The Senate committee struck these recommendations from their bill and substituted a plan for a silver dollar which should contain 416 grains of standard silver, nine-tenths fine. The following section of the Senate bill provided for free coinage of this proposed dollar on private account:

"SEC. 82. That any owner of silver bullion may deposit the same at the mint in the Philippine Islands, to be coined as hereinbefore provided. Silver bullion brought to the mint of the Philippine Islands for coinage shall be received and coined by the proper officers for the benefit of the depositor: *Provided*, That it shall be lawful to refuse at the mint any deposit of less than one hundred dollars, and also any bullion so base as to be unsuitable for the operations of the mint: *And provided also*, That when gold is combined with said bullion in such small proportion that it can not be separated advantageously, no allowance shall be made for such gold to the depositor."

Each House sustained the action of its committee. The Senate bill passed the Senate on June 3, 1902. It was referred to the House committee, but that committee reported its own measure as a complete substitute, and this bill passed the House on June 26. A conference between the two Houses was then arranged, but it was found impossible to reach an agreement in regard to the coinage standard. When it became plain that agreement could not be reached, it was finally decided to drop the proposals of both Houses on this subject. The bill agreed upon in conference was accepted by both Houses on June 30, and approved by the President on July 1.

The members of the House committee appeared to be thoroughly satisfied, after the explanations made by Secretary Root, Governor Taft, and others, that the plan for a gold standard would correct the extreme fluctuations of exchange and operate without risk or difficulty in maintaining the proposed silver coins at par with the gold money of the United States. The members of the Senate committee opposed the plan for the gold standard upon several grounds. The most important appeared to be that there would be difficulty in maintaining the coins at the value given them by law, by reason of severe pressure for gold, which would subject the government of the Philippine Islands to heavy expense to obtain gold for the redemption of silver. Under this head it was pointed out by those favorable to the plan that the limitation of the quantity of the coins and their receipt for public dues would operate as a limited redemption in itself and would maintain them at the proposed ratio with as much ease as the silver dollars of the United States are maintained at par with gold. The difficulty which arose in the United States in 1884 and 1893, it was pointed out, was caused by the fact that a fixed amount of silver was pumped into the circulation monthly, without regard to the needs of trade. This would not occur in the Philippines, if ordinary prudence were used by the Government under the absolute discretion with which it was vested to coin only so much silver as was needed.

The burden of obtaining gold would rest rather upon the banks than upon the treasury. Whenever there was a scarcity of currency and silver was accumulated in the currency reserve, it would lie with the banks to draw out the silver by importing gold and presenting it for silver coin at the ratio fixed by law. Members of the Senate committee, who distrusted the success of this system, appeared a little surprised when the experience of British India was brought to their attention. The Indian government has been pursuing substantially the same policy as that recommended for the Philippines. This policy, however, was inaugurated under infinitely greater difficulties in India than would be the case in the Philippines, because in India there was an immense mass of silver coin to be maintained at the official parity, and old silver coins began to creep out of hoards when their value as coin rose above their value as bullion. The Indian government, after seeking to maintain a fixed par of exchange for six years, without offering to redeem silver in gold, undertook in 1899 to make the English gold sovereign a legal tender and to issue silver rupees at a fixed rate for gold. The result, as set forth in the Indian financial statement for 1900-1901, was as follows:

“We have been nearly swamped (temporarily) by gold. The amount in our currency reserve on April 1, 1899, was £2,030,000. It stood on March 7, 1900, at £7,069,800; the amount accumulated in London under Act II of 1898 stood at £1,500,000, making the aggregate £8,569,800. The difficulty has been that of meeting the demand for rupees in exchange for notes or gold tendered to us.”

The fact that the government of British India, in spite of the magnitude and difficulties of the problem which it confronted, found more than \$40,000,000 in gold on its hands within a year after offering to issue silver for gold, seems to afford pretty conclusive demonstration that at least equal success would be attained in the Philippines in dealing with a silver coinage whose quantity would be strictly regulated by the government from the beginning in conformity with commercial needs and which would circulate upon a much smaller scale than in British India.

The other objection made by members of the Senate Committee was the fundamental one that the silver standard was in itself, in view of trade conditions, preferable to the gold standard in the Philippines. So far as this view rested upon the belief that the Philippines had to deal chiefly or largely with silver-using countries, a statement was presented to the committee showing the relative proportion of the export and import trade of the Philippine Islands with gold and silver standard countries, for the eight months ended August 31, 1901. This statement was as follows:<sup>a</sup>

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<sup>a</sup>There may be some question of the propriety of including in the list of gold-standard countries the French East Indies, as their monetary system is partly native and partly French; but even the transfer of this item to the silver side leaves a great preponderance of the trade of the Philippines on the side of gold-standard countries.

*Commerce of the Philippine Islands for the eight months ended August 31, 1901.*

[Compiled from the monthly summary of the commerce of the Philippine Islands for August, 1901, prepared in Division of Insular Affairs, War Department.]

## COMMERCE WITH GOLD-STANDARD COUNTRIES.

Country.	Imports into Philip- pines.	Exports from Philip- pines.
<b>EUROPE.</b>		
United Kingdom.....	\$3,989,527	\$8,485,907
Germany.....	1,361,699	54,911
France.....	1,199,260	917,573
Spain.....	1,203,330	825,640
Belgium.....	152,868	4,473
Denmark.....	2,449	---
Netherlands.....	107,397	553
Russia.....	184,321	---
Switzerland.....	425,778	155
	8,626,629	10,289,212
<b>OTHER GOLD COUNTRIES.</b>		
Japan.....	707,654	1,338,960
French East Indies.....	1,624,971	1,247
United States.....	2,470,050	1,960,687
Canada.....	32,592	7,329
Australasia.....	422,790	489,730
Total, other than Europe.....	5,258,057	3,797,953
Total gold countries.....	13,884,686	14,087,165

## COMMERCE WITH SILVER-STANDARD COUNTRIES.

China.....	\$2,701,906	\$80,770
Hongkong.....	632,700	2,127,814
British East Indies.....	1,689,265	514,370
Siam.....	548,285	260
Total silver countries.....	5,572,156	2,723,214
Countries not enumerated.....	161,754	125,026
Total merchandise.....	19,618,596	16,935,405

Notwithstanding these arguments, the Senate committee adhered to the view, as expressed by its chairman on the floor of the Senate, that it would be imprudent to attempt at present to establish the gold standard in the Philippines. The Senate, as already stated, refused in conference to accept the plan of the House, and the two houses failed to reach any agreement regarding the standard. The need for small money was so pressing, however, that the two houses agreed upon some provisions for subsidiary and minor coins. The names of these coins were taken from the House bill, in order to meet a criticism which was strongly expressed in the United States, that the names proposed by the Senate bill, being the same as those of the American coins of twice the exchange value, would result in the fraudulent circulation of the new coins in the United States and introduce confusion in retail trade. The provisions made on this subject were for a mint at Manila and that "the laws of the United States relative to mints and coinage, so far as applicable, are hereby extended to the coinage of said islands." The other essential sections regarding coinage are these:

"SEC. 77. That the government of the Philippine Islands is authorized to coin, for use in said islands, a coin of the denomination of fifty centavos and of the weight of one hundred and ninety-two and nine-tenths grains, a coin of the denomination of twenty centavos and of the weight of seventy-seven and sixteen one-hundredths grains,

and a coin of the denomination of ten centavos and of the weight of thirty-eight and fifty-eight one-hundredths grains, and the standard of said silver coins shall be such that of one thousand parts by weight nine hundred shall be of pure metal and one hundred of alloy, and the alloy shall be of copper.

“SEC. 78. That the subsidiary silver coins authorized by the preceding section shall be coined under the authority of the government of the Philippine Islands in such amounts as it may determine, with the approval of the Secretary of War of the United States, from silver bullion purchased by said government, with the approval of the Secretary of War of the United States: *Provided*, That said government may in addition and in its discretion recoin the Spanish-Filipino dollars and subsidiary silver coins issued under the authority of the Spanish Government for use in said islands into the subsidiary coins provided for in the preceding section at such rate and under such regulations as it may prescribe, and the subsidiary silver coins authorized by this section shall be legal tender in said islands to the amount of ten dollars.

“SEC. 79. That the government of the Philippine Islands is also authorized to issue minor coins of the denominations of one-half centavo, one centavo, and five centavos, and such minor coins shall be legal tender in said islands for amounts not exceeding one dollar. The alloy of the five-centavo piece shall be of copper and nickel, to be composed of three-fourths copper and one-fourth nickel. The alloy of the one-centavo and one-half-centavo pieces shall be 95 per centum of copper and 5 per centum of tin and zinc, in such proportions as shall be determined by said government. The weight of the five-centavo piece shall be seventy-seven and sixteen-hundredths grains troy, and of the one-centavo piece eighty grains troy, and of the one-half-centavo piece forty grains troy.

“SEC. 80. That for the purchase of metal for the subsidiary and minor coinage authorized by the preceding sections an appropriation may be made by the government of the Philippine Islands from its current funds, which shall be reimbursed from the coinage under said sections; and the gain or seigniorage arising therefrom shall be paid into the treasury of said islands.

“SEC. 81. That the subsidiary and minor coinage hereinbefore authorized may be coined at the mint of the government of the Philippine Islands at Manila, or arrangements may be made by the said government with the Secretary of the Treasury of the United States for their coinage at any of the mints of the United States, at a charge covering the reasonable cost of the work.

“SEC. 82. That the subsidiary and minor coinage hereinbefore authorized shall bear devices and inscriptions to be prescribed by the government of the Philippine Islands, and such devices and inscriptions shall express the sovereignty of the United States, that it is a coin of the Philippine Islands, the denomination of the coin, and the year of the coinage.”

Even if measures are at once taken to comply with this law, it will probably be near the beginning of the coming year before any of the new pieces will gladden the eyes of the natives of the Philippines. It has been recommended to the Philippine government that they coin as many of the pieces of 50 centavos as can be gotten into circulation in the islands. These are the largest pieces authorized by Congress, corresponding in size to the American half dollar, but having less

than half its gold value. If these coins prove generally acceptable in retail trade, they may tend to expel the Mexican silver dollars to a considerable extent from use, and thereby establish a distinctive local currency.

What shall be done in future for solving the Philippine currency problem depends largely upon the operation of the new coinage law. If the new coins authorized by Congress come into general use and tend to expel the Mexican pieces, it will be in the power of Congress, if the system appears to be acceptable, to throw the mints open to the free coinage of a standard Philippine peso. If, on the other hand, there seems to be a strong desire for putting an end to the fluctuations of exchange by the introduction of American currency or a local gold standard, legislation to that effect can be enacted. In view, however, of the amount of time spent upon the Philippines at the last session of Congress, it is doubtful if there will be a disposition to do anything more until the results of the new law have been tested by experience. The Philippine Commission now have wide lawmaking power by the grant of Congress, and they may feel justified, after the new coinage system has been tested, in themselves legislating in conformity with local needs. The power lies with Congress under the Philippine government act to disapprove their legislation if it is considered unwise.

The experience of the Filipinos with the Mexican pesos throws a side light upon the difficulties of international money in the present state of relations between nations and between gold and silver. Conformity to an international unit of exchange, agreed upon by all civilized nations, has been the dream of many students and philosophers. It is unquestionably a dream full of attraction and perhaps capable of realization when all nations shall adhere with inflexible honesty to a metallic standard of full weight and value, and shall never be compelled to suspend specie payments by the exigencies of party politics at home or war abroad. Under existing conditions, however, with silver almost inevitably employed for token coins and with these coins fluctuating in their relations to gold, the possession by any nation of a coinage which is not under its own control involves grave uncertainties. This has been demonstrated by the history of the Latin Union, where the suspension of specie payments by Italy flooded France and Switzerland with Italian silver coins. These coins, driven from Italy by her depreciated paper currency, under the operation of Gresham's law, were receivable in France and Switzerland at par with gold, and it became necessary to formulate a special convention to compel Italy to take back her silver at its face value. Some of the difficulties encountered in the Philippines by employing the money of another nation have just been recounted. They are but a hint of the difficulties which would ensue if Mexico should herself discredit her silver coins by the adoption of the gold standard. It is certain that Mexico in that event could not and would not attempt to raise to any fixed gold parity the great mass of her coins which have found circulation in the East. She would face the same difficulties which the United States would have faced in the Philippines if the Senate provision for free coinage had become law and it had afterwards been proposed to raise the coins issued to parity with gold.

The Philippines, if they should continue to use Mexican pesos as their standard money, while Mexico herself drove them from her coinage and established the gold standard, would be in a position almost unique in monetary history. The Mexican pesos, repudiated at home,

would be like outcasts taken under the wing of a foster mother. If all of them were in use in the Philippines, the problem, even under these conditions, would be comparatively simple; but in view of the great quantities of them in circulation in China and other parts of the Orient it would never be possible for the government of the Philippine Islands, however kindly disposed toward their desolate and orphaned state, to adopt them as the basis of a national currency. It is clear that disorder and fluctuations will continue to afflict the monetary system of the Philippines until action is taken either by Congress or the Philippine government to bring the system into definite relations with the gold standard of the United States and Europe, with whose commerce the future prosperity of the Philippines is inevitably bound up.

CHARLES A. CONANT.

NEW YORK CITY.

## II. THE PHILIPPINE COINAGE ACT.

[PUBLIC—No. 137.]

AN ACT to establish a standard of value and to provide for a coinage system in the Philippine Islands.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That the unit of value in the Philippine Islands shall be the gold peso consisting of twelve and nine-tenths grains of gold, nine-tenths fine, said gold peso to become the unit of value when the government of the Philippine Islands shall have coined and ready for, or in, circulation not less than five million of the silver pesos hereinafter provided for in this act, and the gold coins of the United States at the rate of one dollar for two pesos hereinafter authorized to be coined shall be legal tender for all debts, public and private, in the Philippine Islands.

SEC. 2. That in addition to the coinage authorized for use in the Philippine Islands by the act of July first, nineteen hundred and two, entitled "An act temporarily to provide for the administration of the affairs of civil government in the Philippine Islands, and for other purposes," the government of the Philippine Islands is authorized to coin to an amount not exceeding seventy-five million pesos, for use in said islands, a silver coin of the denomination of one peso and of the weight of four hundred and sixteen grains, and the standard of said silver coins shall be such that of one thousand parts, by weight, nine hundred shall be of pure metal and one hundred of alloy, and the alloy shall be of copper.

SEC. 3. That the silver Philippine peso authorized by this act shall be legal tender in the Philippine Islands for all debts, public and private, unless otherwise specifically provided by contract: *Provided,* That debts contracted prior to the thirty-first day of December, nineteen hundred and three, may be paid in the legal-tender currency of said islands existing at the time of the making of said contracts, unless otherwise expressly provided by contract.

SEC. 4. That section seventy-seven of the act of July first, nineteen hundred and two, is hereby amended so that it shall read:

"SEC. 77. That the government of the Philippine Islands is authorized to coin for use in said islands a coin of the denomination of fifty

centavos and of the weight of two hundred and eight grains, a coin of the denomination of twenty centavos and of the weight of eighty-three and ten one-hundredths grains, and a coin of the denomination of ten centavos and of the weight of forty-one and fifty-five one-hundredths grains; and the standard of said silver coins shall be such that of one thousand parts, by weight, nine hundred shall be of pure metal and one hundred of alloy, and the alloy shall be of copper."

SEC. 5. That the Philippine peso herein authorized and the subsidiary silver coins authorized by section seventy-seven of the act of July first, nineteen hundred and two, as amended by the preceding section of this act, shall be coined under the authority of the government of the Philippine Islands in such amounts as it may determine, with the approval of the Secretary of War of the United States, except as limited in section two of this act, from silver bullion purchased by said government, with the approval of the Secretary of War of the United States: *Provided*, That said government may, in its discretion, in lieu of the purchase of bullion, recoin any of the silver coins now in or hereafter received by the treasury of the government of the Philippine Islands into the coins provided for in this act or in the act of July first, nineteen hundred and two, as herein amended, at such rate and under such regulations as it may prescribe; and the subsidiary silver coins authorized by this act and by the act of July first, nineteen hundred and two, shall be legal tender in said islands to the amount of ten dollars.

SEC. 6. That the coinage authorized by this act shall be subject to the conditions and limitations of the provisions of the act of July first, nineteen hundred and two, entitled "An act temporarily to provide for the administration of the affairs of civil government in the Philippine Islands, and for other purposes," except as herein otherwise provided; and the government of the Philippine Islands may adopt such measures as it may deem proper, not inconsistent with said act of July first, nineteen hundred and two, to maintain the value of the silver Philippine peso at the rate of one gold peso, and in order to maintain such parity between said silver Philippine pesos and the gold pesos herein provided for, and for no other purpose, may issue temporary certificates of indebtedness, bearing interest at a rate not to exceed four per centum annually, payable at periods of three months or more, but not later than one year from the date of issue, which shall be in the denominations of twenty-five dollars, or fifty pesos, or some multiple of such sum, and shall be redeemable in gold coin of the United States, or in lawful money of said islands, according to the terms of issue prescribed by the government of said islands; but the amount of such certificates outstanding at any one time shall not exceed ten million dollars, or twenty million pesos, and said certificates shall be exempt from the payment of all taxes or duties of the government of the Philippine Islands, or any local authority therein, or of the Government of the United States, as well as from taxation in any form by or under any State, municipal, or local authority in the United States or the Philippine Islands: *Provided*, That all the proceeds of said certificates shall be used exclusively for the maintenance of said parity, as herein provided, and for no other purpose, except that a sum not exceeding three million dollars at any one time may be used as a continuing credit for the purchase of silver bullion in execution of the provisions of this act.

SEC. 7. That the Mexican silver dollar now in use in the Philippine Islands and the silver coins heretofore issued by the Spanish Govern-

ment for use in said islands shall be receivable for public dues at a rate to be fixed from time to time by the proclamation of the civil governor of said islands until such date, not earlier than the first day of January, nineteen hundred and four, as may be fixed by public proclamation of said civil governor, when such coins shall cease to be so receivable: *Provided*, That the public offices of the government of said islands shall give a preference for all public dues to the silver pesos and the silver certificates authorized by this act, and may at any time refuse to receive such Mexican dollars and Spanish coins as may appear to be counterfeit or defective.

SEC. 8. That the treasurer of the Philippine Islands is hereby authorized, in his discretion, to receive deposits of the standard silver coins of one peso authorized by this act to be coined, at the treasury of the government of said islands or any of its branches, in sums of not less than twenty pesos, and to issue silver certificates therefor in denominations of not less than two nor more than ten pesos, and coin so deposited shall be retained in the treasury and held for the payment of such certificates on demand, and used for no other purpose. Such certificates shall be receivable for customs, taxes, and for all public dues in the Philippine Islands, and when so received may be reissued, and when held by any banking association in said islands may be counted as a part of its lawful reserve.

SEC. 9. That for the purchase of metal for the silver Philippine peso authorized by this act an appropriation may be made by the government of the Philippine Islands from its current funds, or as hereinbefore authorized, which shall be reimbursed from the coinage under said sections.

SEC. 10. That the silver Philippine pesos hereinbefore authorized may be coined at the mint of the government of the Philippine Islands at Manila, or arrangements may be made by the said government with the Secretary of the Treasury of the United States for their coinage or any portion thereof at any of the mints of the United States, at a charge covering the reasonable cost of the work.

SEC. 11. That the silver Philippine peso hereinbefore authorized shall bear devices and inscriptions to be prescribed by the government of the Philippine Islands, and such devices and inscriptions shall express the sovereignty of the United States, that it is a coin of the Philippine Islands, the denomination of the coin, and the year of the coinage.

SEC. 12. That the Secretary of the Treasury is hereby authorized and directed, when requested by the government of the Philippine Islands, to cause to be made and prepared any drawings, designs, and plates, and execute any coinage, engraving, or printing of notes and certificates authorized by this act, and to make a proper charge for the same, covering as nearly as may be the actual cost, which shall be defrayed from the revenues of said islands.

SEC. 13. That section seventy-eight of the act of July first, nineteen hundred and two, and all acts and parts of acts inconsistent with the provisions of this act, and all provisions of law in force in the Philippine Islands making any form of money legal tender after December thirty-first, nineteen hundred and three, except as provided in this act, are hereby repealed.

Approved, March 2, 1903.

## III.—ACTS OF THE PHILIPPINE COMMISSION, No. 696.

An act authorizing the issue of three million dollars of certificates of the indebtedness under and by authority of section six of the act of Congress entitled "An act relating to currency for the Philippine Islands," approved March second, nineteen hundred and three, and making an appropriation of two million dollars in money of the United States immediately available for the purpose of purchasing silver bullion with which to coin silver Philippine pesos in accordance with section five of the said act of Congress approved March second, nineteen hundred and three.

*By authority of the United States, be it enacted by the Philippine Commission, that:*

SECTION 1. With the approval of the Secretary of War there may be coined, under the direction of the Secretary of the Treasury, by the mints in the United States, two million silver Philippine pesos per month, of the weight of four hundred and sixteen grains each, with a standard such that of one thousand parts by weight nine hundred shall be of pure silver and one hundred of copper alloy, under and by virtue of section two of the act of Congress entitled "An act relating to currency for the Philippine Islands," approved March second, nineteen hundred and three, and said monthly coinage of two million silver Philippine pesos may continue, with the approval of the Secretary of War, until there shall have been coined twenty-four millions of said pesos.

SEC. 2. The Secretary of War is hereby authorized, on behalf of the government of the Philippine Islands, temporarily to issue certificates of indebtedness to the extent of three million dollars in money of the United States, bearing interest at a rate not to exceed four per centum annually, payable at periods of three months or more, but not later than one year from date of issue, in denominations of one thousand dollars in currency of the United States, and redeemable in gold coin of the United States, which certificates of indebtedness shall be disposed of by the Secretary of War at such favorable rate of interest or premium as he may be able to secure, the proceeds thereof to be deposited with the Guaranty Trust Company, the authorized depository of the government of the Philippine Islands, to the credit of the treasury of the Philippine Islands. These certificates are authorized by, and shall be issued in accordance with, section six of said act of Congress approved March second, nineteen hundred and three, and shall state upon their face that they have been issued in accordance with the terms of said section for the purpose of purchasing silver bullion in execution of the provisions of said act of Congress and by authority of this act of the Philippine Commission.

SEC. 3. The Secretary of War shall report to the auditor and the treasurer of the Philippine Islands the amount of such certificates of indebtedness as are described in the previous section which he has issued under the authority thereof, the numbers and denominations thereof, the rate of interest to be paid thereon, the time when payable, the premium, if any, at which they were issued, and the total proceeds therefrom, and the same shall be made a matter of record in the offices of the auditor and treasurer of the Philippine Islands.

SEC. 4. By way of anticipating the proceeds of the foregoing loan and to avoid delay in the purchase of the silver bullion and the coinage of the silver Philippine pesos, as provided in the first section hereof, there is hereby appropriated and made immediately available,

out of any funds in the insular treasury not otherwise appropriated, the sum of two million dollars in money of the United States, or so much thereof as may be necessary, to be used for the purpose of purchasing silver bullion with which to enable the Secretary of the Treasury, through the mints of the Government of the United States, to coin the silver Philippine pesos of the size, weight, and fineness and of the character described and prescribed in section two of the act of Congress entitled "An act relating to currency for the Philippine Islands," approved March second, nineteen hundred and three, and in section one of this act, and the proceeds of the certificates of indebtedness so issued, as authorized in section two hereof, when deposited to the credit of the treasury of the Philippine Islands, shall replace in said treasury the sum by this section advanced and appropriated for the purposes herein declared.

SEC. 5. The public good requiring the speedy enactment of this bill, the passage of the same is hereby expedited in accordance with section two of "An act prescribing the order of procedure by the Commission in the enactment of laws," passed September twenty-sixth, nineteen hundred.

SEC. 6. This act shall take effect on its passage.

Enacted, March 23, 1903.

#### IV. ACT OF THE PHILIPPINE COMMISSION.

[No. 792.]

AN ACT to authorize the issue of three million dollars of certificates of indebtedness under and by authority of section six of the act of Congress entitled "An act relating to currency for the Philippine Islands," approved March second, nineteen hundred and three, in addition to the three millions of dollars of certificates of the same character already authorized by act numbered six hundred and ninety-six; and amending section two of act numbered six hundred and ninety-six by striking out the requirement that the certificates of indebtedness already issued shall state upon their face that they were issued for the purpose of purchasing silver bullion.

*By authority of the United States be it enacted by the Philippine Commission that—*

SECTION 1. The Secretary of War is hereby authorized, on behalf of the government of the Philippine Islands, temporarily to issue certificates of indebtedness to the extent of three millions of dollars, in money of the United States, bearing interest at a rate not to exceed four per centum annually, payable at periods of three months or more, but not later than one year from date of issue, in denominations of one thousand dollars, in currency of the United States, and redeemable in gold coin of the United States, which certificates of indebtedness shall be disposed of by the Secretary of War at such favorable rate of interest or premium as he may be able to secure, the proceeds thereof to be deposited with the Guaranty Trust Company, the authorized depository of the government of the Philippine Islands, to the credit of the treasury of the Philippine Islands. These certificates are authorized by and shall be issued in accordance with section six of said act of Congress approved March second, nineteen hundred and three, entitled "An act relating to currency for the Philippine Islands," and the proceeds thereof are to be used as provided in said act. The certificates issued hereunder shall state upon their face that

they have been issued in accordance with the terms of said section and by authority of this act of the Philippine Commission, and that they are in addition to the issue of three millions of dollars of similar certificates, issued under act numbered six hundred and ninety-six of the Philippine Commission, enacted March twenty-third, nineteen hundred and three.

SEC. 2. The Secretary of War shall report to the auditor and treasurer of the Philippine Islands the amount of the certificates of indebtedness the issue of which is authorized in the previous section, which he shall issue under the authority thereof, the numbers and denominations thereof, the rate of interest to be paid thereon, the time when payable, the premium, if any, at which they were issued, and the total proceeds therefrom; and such facts shall be made a matter of record in the offices of the auditor and treasurer of the Philippine Islands. The certificates to be issued under this act shall be numbered consecutively, the first certificate thereof bearing the number next after that of the last-numbered certificate issued under act numbered six hundred and ninety-six.

SEC. 3. It appearing that the certificates of indebtedness for three millions of dollars, issued under act numbered six hundred and ninety-six, and already sold in the markets of New York, did not state upon their face, as required by section two of said act numbered six hundred and ninety-six, "that they have been issued in accordance with the terms of said section for the purpose of purchasing silver bullion in execution of the provisions of said act of Congress," the act of the Secretary of War in issuing the certificates without the said statement is hereby confirmed, and said section is hereby amended by striking out the words "and shall state upon their face that they have been issued in accordance with the terms of said section for the purpose of purchasing silver bullion in execution of the provisions of said act of Congress."

SEC. 4. The public good requiring the speedy enactment of this bill, the passage of the same is hereby expedited in accordance with section two of "An act prescribing the order of procedure by the Commission in the enactment of laws," passed September twenty-sixth, nineteen hundred.

SEC. 5. This act shall take effect on its passage.

Enacted June 30, 1903.

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#### EXECUTIVE ORDER.

EXECUTIVE ORDER, )	THE GOVERNMENT OF THE
No. 66. )	PHILIPPINE ISLANDS,
	EXECUTIVE BUREAU,
	<i>Manila, August 3, 1903.</i>

The following character will be used by all officials of this government as the designation for the new Philippine pesos in contradistinction to the \$ mark for United States currency, and Pfs. for Mexican or Spanish currency: ₱.

WM. H. TAFT, *Civil Governor.*

V.—THE GOLD RESERVE ACT OF THE PHILIPPINE COMMISSION,  
No. 938.

AN ACT Constituting a gold-standard fund in the insular treasury, to be used for the purpose of maintaining the parity of the silver Philippine peso with the gold-standard peso, and organizing a division of the currency in the bureau of the insular treasury through which such fund shall be maintained, expenditures made therefrom, and accretions made thereto, and providing regulations for the exchange of currencies and for the issue and redemption of silver certificates.

*By authority of the United States, be it enacted by the Philippine Commission that:*

SECTION 1. All funds in the insular treasury which are the proceeds of the certificates of indebtedness issued under and by authority of section six of an act of Congress entitled "An act to establish a standard of value and to provide for a coinage system in the Philippine Islands," approved March second, nineteen hundred and three, all profits of seigniorage made by the insular government in the purchase of bullion and the coinage therefrom, and the issue of the Philippine pesos and the subsidiary and minor coins, all profits from the sale of exchange by the insular government between the Philippine Islands and the United States made for the purpose of continuing the parity of the silver Philippine peso with the gold-standard peso, and all other receipts in the insular treasury inuring to the insular government in the exercise of its functions of furnishing a convenient currency for the islands, shall constitute a separate and trust fund in the insular treasury, to be known as the "Gold-standard fund" and to be used for the purpose of maintaining the parity of the silver Philippine peso with the gold-standard peso provided in the said act of Congress approved March second, nineteen hundred and three. Such fund shall not be used to pay any expenses of the insular government or to satisfy any of the appropriations of the insular government, except only those connected with the purchase of bullion, the coinage of the same into the money of the Philippine Islands, and those which are incident to the transportation of such money to the Philippine Islands from the place of coinage, to the putting of the money into circulation, including the preparation and issue of silver certificates, and to the carrying on of such financial transactions, by exchange and otherwise, as may be authorized by law to maintain the circulation of the currency provided for in the said act of Congress approved March second, nineteen hundred and three, and the subsidiary and minor coinage provided for by said act and by an act of Congress entitled "An act temporarily to provide for the administration of the affairs of civil government in the Philippine Islands, and for other purposes," approved July first, nineteen hundred and two, and to the maintenance of the parity of value between the silver Philippine peso and the subsidiary and minor coins, the coinage of which is provided for by the acts above mentioned, and the gold peso, which by the act of March second, nineteen hundred and three, is made the standard of value in the Philippine Islands: *Provided*, That whenever the public interests permit, there may be withdrawn from the gold-standard fund such amount as the Philippine Government may deem proper to pay the principal and interest of all, or any part of, the certificates of indebtedness issued under section six of the said act of Congress of March second, nineteen hundred and three.

SEC. 2. For the purpose of facilitating the more efficient discharge of the functions of the insular government with respect to the circulation of the currency provided for by the said act of Congress

approved March second, nineteen hundred and three, and for the purpose of maintaining the parity therein directed, there is hereby created a division in the bureau of the insular treasury to be known as the division of currency. The chief of the division shall be appointed by the civil governor, by and with the advice and consent of the Commission, and shall receive an annual salary of six thousand pesos, Philippines currency. He shall have under him to assist him in the discharge of his duty such accountants and clerical assistants as may be approved by the insular treasurer and as shall be authorized by law.

SEC. 3. It shall be the duty of the chief of the division of currency, first, to examine the books of the treasurer and the auditor and to make report to the insular treasurer of the funds now in the insular treasury which, by virtue of the first section of this act, are to constitute a gold-standard fund and to be segregated as such under this act; and the insular treasurer and the insular auditor shall, if they concur in the recommendation of the chief of the division of currency, make the segregation on their respective books and in all future accounts and reports. In the event of any difference of opinion between the chief of the division of currency, the treasurer, and the auditor, the method of segregation shall be finally determined by the secretary of finance and justice. After the segregation has been effected the treasurer's receipts for all moneys coming into the treasury, which should be deposited in the gold-standard fund, shall be submitted to the chief of the division of currency for his initialing and the proper notation of the same in his accounts. When any money is to be withdrawn from the gold-standard fund or transferred from the treasury at Manila to a depository elsewhere, or vice versa, the warrant or draft or the telegraphic transfer for the same shall specifically state that it is from the gold-standard fund and shall bear the initials of the chief of the division of currency and shall be noted in his accounts.

SEC. 4. No transaction in the treasury with reference to the coinage of money, the circulation of the same, the maintenance and preservation of the gold-standard fund, the maintenance of the parity, or the issue and retirement of silver certificates shall take place without its being first submitted to the chief of the division of currency for notation.

SEC. 5. It shall be the duty of the chief of the division of currency to keep a separate set of books dealing solely with the financial operations of the government in coinage and currency matters and in the administration of the gold-standard fund, and to make a monthly statement of the same to the insular treasurer and the secretary of finance and justice.

SEC. 6. Nothing herein is intended to change the actual custody and control of all insular funds, including the gold-standard fund herein constituted, now by law placed in the insular treasurer. All the duties of the chief of the division of currency under this act shall be performed under the supervision of the insular treasurer.

SEC. 7. For the purpose of maintaining the parity of the Philippine silver peso with the Philippine gold peso, and of keeping the currency equal in volume only to the demands of trade, the insular treasurer is hereby authorized and directed:

First. To exchange on demand at the insular treasury in Manila for Philippines currency offered in sums of not less than ten thousand pesos, or United States currency offered in sums of not less than five thousand dollars, drafts on the gold-standard fund deposited in the United States or elsewhere to the credit of the insular treasury, charg-

ing for the same a premium of three-quarters of one per cent for demand drafts and of one and one-eighth per cent for telegraphic transfers; and it is further made the duty of the insular treasurer to direct the depositories of the funds of the Philippine government in the United States to sell on demand, in sums of not less than ten thousand pesos, exchange against the gold-standard fund in the Philippine Islands, charging for the same a premium of three-quarters of one per cent for demand drafts and of one and one-eighth per cent for telegraphic transfers, rendering accounts therefor to the insular treasurer and insular auditor. But the premium charged for drafts and telegraphic transfers in this paragraph mentioned may be temporarily increased or decreased by order issued by the secretary of finance and justice should the conditions at any time existing, in his judgment, require such action.

Second. To exchange at par, on the approval of the secretary of finance and justice, United States Treasury notes, national-bank notes, United States notes, and United States gold and silver certificates for Philippines currency, and Philippines currency for United States Treasury notes, national-bank notes, United States notes, and United States gold and silver certificates.

Third. To exchange, on the approval of the secretary of finance and justice, for Philippines currency United States gold coin or gold bars in sums of not less than ten thousand pesos for five thousand dollars, charging for the same a premium sufficient to cover the expenses at commercial rates of transporting United States gold coin from New York to Manila. The secretary of finance and justice shall determine the amount of the premium required by this subsection.

Fourth. To withdraw from circulation until paid out in response to demands made upon it by the sale of exchange, as provided in paragraph one of this section, or by presenting of United States Treasury notes, national-bank notes, United States notes, United States gold and silver certificates, and United States gold coin or gold bars at the Treasury, Philippines currency exchanged and deposited in the Treasury in the manner provided in paragraphs one and two of this section.

Fifth. To withdraw from circulation United States Treasury notes, national-bank notes, United States notes, United States gold and silver certificates, and United States gold coin and gold bars received in the Philippine Islands by the insular treasurer in exchange for Philippines currency, under paragraph two of this section, until called out in response to the presentation of Philippines currency as above provided, or until an insufficiency of Philippines currency shall make necessary an increased coinage, in which case the funds so withdrawn may be used under proper legislation for the purpose of providing such a coinage. The coin so obtained shall become part of the gold-standard fund.

SEC. 8. The treasurer of the Philippine Islands and the treasurers of the several provinces are hereby authorized and directed to exchange Philippine pesos on demand for the silver coins of the Philippine Islands of a smaller denomination than one peso, issued under authority of section four of the said act of Congress approved March second, nineteen hundred and three, and for the minor coins of nickel and copper issued under authority of section seventy-nine of the said act of Congress of July first, nineteen hundred and two; provided said subsidiary and minor coins are offered in the sums of ten pesos or any multiple thereof. The insular treasurer and the several provincial treasurers are also authorized and directed to exchange on

demand for Philippine pesos offered in sums of ten pesos, or any multiple thereof, the above-mentioned silver subsidiary and minor coins of nickel and copper.

SEC. 9. The issue and redemption of silver certificates according to the provisions of section eight of the said act of Congress approved March second, nineteen hundred and three, and subject to the limitations in said act of Congress and in this act contained, shall be conducted under the immediate supervision of the chief of the division of currency, and his books and reports shall contain detailed accounts of the issue and redemption of such certificates.

SEC. 10. The silver certificates which the treasurer of the Philippine Islands is authorized to issue upon receiving deposits of the standard Philippine pesos, in accordance with the provisions of section eight of the said act of Congress approved March second, nineteen hundred and three, shall be prepared and delivered to the treasurer of the Philippine Islands, safeguarded, issued, withdrawn, and canceled or destroyed, and a record of such transactions be kept, in the manner in this section provided.

(a) The necessary drawings, designs, plates, and engravings for such certificates, and the printing thereof, shall be made and executed through the Secretary of the Treasury of the United States, upon request of the government of the Philippine Islands, in accordance with section twelve of said act of Congress of March second, nineteen hundred and three, and the amount of such certificates and the denominations thereof shall be determined from time to time by resolution of the Philippine Commission.

(b) Such certificates, when completed at the Bureau of Engraving and Printing at Washington, shall be delivered without the seal of the treasury of the Philippine government, and shall be to that extent incomplete. In such uncompleted state they shall be delivered to the Bureau of Insular Affairs of the War Department at Washington, the Chief of which Bureau shall receipt therefor in the name of the government of the Philippine Islands, after having verified the count thereof. The Chief of the Bureau of Insular Affairs shall thereupon transmit such certificates to the treasurer of the Philippine Islands, and shall also give notice to the auditor for the Philippine Islands of the denominations and amount of silver certificates transmitted to the treasurer of the Philippine Islands. Upon the delivery of such certificates to the treasurer of the Philippine Islands the auditor shall receive from the treasurer of the Philippine Islands a receipt in duplicate of the denominations and amount of the certificates so received upon verifying the count thereof, and of the duplicate receipts so received the auditor shall retain one, and the other shall be transmitted by the auditor with his counter signature to the Chief of the Bureau of Insular Affairs at Washington.

(c) Upon receiving such certificates the treasurer of the Philippine Islands shall cause them to be put through a printing press, which shall imprint thereon the seal and omitted marks, if any, and shall cause the sheets thereof to be separated into single certificates of a uniform size and done up in packages of convenient size inclosed in paper straps upon which are printed the denomination and amount included therein, verifying the count in all cases, and employing such safeguards in the printing, cutting, and making up of packages as shall preserve the certificates free from all opportunity for loss by theft. The bundles shall thereupon be deposited in a vault, called the reserve vault, where they shall remain until required for circulation. While

the certificates remain in the reserve vault they shall not be considered as available cash for the government, and shall not appear as such on the cash books of the treasury, though the treasurer shall be held responsible for the same as money.

(d) From time to time the treasurer of the Philippine Islands shall withdraw such amount of silver certificates from the reserve vault as may be required to meet the demands for their purchase in accordance with the provisions of section eight of said act of Congress of March second, nineteen hundred and three. All certificates taken from the reserve vault thereafter shall be treated as available cash for the government. The pesos received in exchange for the certificates sold shall be deposited in the reserve vault, shall be held for the payment of said certificates on demand, and shall constitute a trust fund to be used for no other purpose.

(e) Upon the delivery to the auditor for the Philippine Islands of the receipt of the treasurer for the uncompleted certificates transmitted to the treasury by the Chief of the Bureau of Insular Affairs at Washington, the auditor for the Philippine Islands shall enter on a book kept by him for that purpose the denominations, serial numbers, and amounts delivered to the treasurer of the Philippine Islands. The treasurer of the Philippine Islands shall keep an independent set of books in which shall be recorded the amount, the denominations, and the serial numbers of the certificates which are daily put into and withdrawn from said reserve vault. The treasurer of the Philippine Islands shall furnish a transcript of the foregoing daily entries to the auditor, who shall enter the same upon his books.

(f) When certificates mutilated or otherwise unfit for circulation shall be paid into the insular treasury, they shall not be reissued, but shall be retained in the treasury for future destruction; and from time to time, when a sufficient amount shall have been accumulated, the civil governor, the secretary of finance and justice, and a committee of two accountants to be designated by said secretary shall, in the presence of the treasurer, the auditor, and the chief of the division of currency, after noting the amounts, denominations, and numbers of such certificates, completely destroy the same by burning, and thereafter the treasurer shall be credited on his accounts in accordance with this action. The credit allowed shall be based upon the written report of the committee of accountants, attested by the civil governor, the secretary of finance and justice, and the auditor for the Philippine Islands.

SEC. 11. The chief of the division of currency shall be required to make to the insular treasurer an annual report covering the affairs and business of the division in detail, and such other reports or recommendations as may be required by superior authority.

SEC. 12. All appointments in the division of currency, except the chief of the division, shall be made by the insular treasurer, as in the case of the other divisions of the insular treasury, in accordance with the provisions of the civil-service act.

SEC. 13. The public good requiring the speedy enactment of this bill, the passage of the same is hereby expedited in accordance with section two of "An act prescribing the order of procedure by the Commission in the enactment of laws," passed September twenty-sixth, nineteen hundred.

SEC. 14. This act shall take effect on its passage.

Enacted October 10, 1903.

## VI.—THE EXECUTION OF THE PHILIPPINE COINAGE ACT.

[From report of Col. Clarence R. Edwards, Chief of Bureau of Insular Affairs.]

In anticipation of legislation providing for a special coinage system for the Philippine Islands, the Philippine Commission, in December, 1901, adopted a resolution appointing Commissioners T. H. Pardo de Tavera and Benito Legarda a special committee to confer with competent persons and obtain suggestions and designs from native artists, if possible, for the Philippine coins. The report of this committee, including photographic designs, was forwarded to this Bureau by the civil governor of the Philippine Islands soon after the appointment of said committee, and was retained here pending Congressional action. Among the same were designs by Mr. Melecio Figueroa, of Manila, who had taken a prize at a competitive examination in Madrid and who had studied art in Rome, which were preferred by the Secretary of War and officials of this Bureau, and which may be described as follows:

There were two Figueroa designs for the obverse, to express "that it is a coin of the Philippine Islands," one for the silver and the other for the nickel and copper coins, and one design only for the reverse, to "express the sovereignty of the United States," the latter a shield surmounted with an eagle with outstretched wings, unmistakably American, and at the same time so different from the devices on the United States silver dollar, fifty-cent piece, and quarter as not to be easily confounded. This device is surrounded by the legend "United States of America. 1903."

The first of the obverse designs is the entire figure of a Filipino woman lightly clothed in loose costume, with tresses floating in the wind. She holds in her right hand a hammer which rests on an anvil. In the background is seen the Mayon volcano, a perfect cone, therefore typical in that none other of such symmetry exists. The legend for the peso, surrounding the figure, being, "One peso Filipinas."

The other obverse design substitutes for the female figure as described the figure of a man seated by an anvil, with one elbow resting thereon, and grasping a hammer in the right hand, while the left rests on the left knee. Both figures are well proportioned, the pose natural and graceful, and the figures well modeled. The design conveys the thought that it is by earnest labor that the Filipinos must work out their destiny, under the guidance of the United States.

It takes some six months to make the dies necessary for any considerable coinage, and a knowledge of this fact led the Secretary of War to urge upon the Philippine Commission the necessity of complying with section 82 of the act of Congress approved July 1, 1902, above quoted, which authorized the Philippine government to prescribe devices and inscriptions "which shall express the sovereignty of the United States, that it is a coin of the Philippine Islands, the denomination of the coin, and the year of the coinage."

While the Philippine Commission decided to take no action under the law authorizing subsidiary coinage until a definite unit of value was fixed by Congress, the War Department, in anticipation that Congress would grant the frequently recommended currency legislation, continued to urge upon the Commission the necessity of officially adopting such devices, and in the meantime took up with the Director of the Mint and the expert engravers of the Philadelphia mint the question of the preparation of the proper dies.

On December 18, 1902, the Philippine Commission prescribed the Figueroa obverse design of the native woman for all the silver pieces and the other obverse design of the sitting Filipino for the copper pieces, the reverse being common to all.

The final act of Congress—Philippine coinage system—was passed March 2, 1903. On March 7 the Secretary of the Treasury submitted for inspection and approval a specimen of the new peso coin for the Philippine Islands.

In the desire not to deny to the Philippine government the use, expert advice, and machinery of the Mint Bureau of the Treasury Department, upon request of the Secretary of War, the Secretary of the Treasury consented to purchase the bullion reported necessary for the Philippine coinage. It was arranged that the superintendents of the two mints assigned to the Philippine coinage should pay for the bullion as delivered from the "bullion fund" and render monthly reports to this Bureau, which would reimburse the mints by deposit of an equivalent amount in gold in the United States Treasury. This plan has been satisfactorily followed by daily cooperation between the Bureau of the Mint of the Treasury Department and this Office.

At first the Treasury Department calculated and promised a monthly coinage of ₱2,000,000, estimating the capacity of the San Francisco mint 1,000,000 and the Philadelphia mint 1,000,000. After careful consideration as to the cost of bullion delivered at the various mints, and particularly the cost to the insular government for the transportation of the finished coins to the Philippine Islands, and the fact that experience had shown that the San Francisco mint could turn out each month ₱2,000,000, it was decided to confine the coinage of pesos to San Francisco and the subsidiary and minor coins to the Philadelphia mint, which is specially equipped for this class of coinage.

Purchases of silver bullion were made on Mondays and Thursdays on quotations submitted to the Director of the Mint, of the Treasury Department, who has kindly consulted and cooperated with this Bureau as to the desirability of such purchases. Bills to cover the same are paid by this Bureau.

A contract was entered into with the Scoville Manufacturing Company to furnish blanks in nickel and in bronze for the 5-centavo, 1-centavo, and one-half centavo pieces, which require only the stamp of the United States Mint after delivery.

The purchases of bullion were made and allotted to the respective mints according to the needs and as dictated by economy.

#### PURCHASE OF BULLION.

The first purchase of silver was made March 26, 1903, twenty-four days after the passage of the act. The following amounts were appropriated and placed to the credit of the disbursing agent for expenses in connection with the Philippine coinage:

May 1, 1903.....	\$2, 000, 000
June 3, 1903.....	1, 000, 000
July 9, 1903.....	1, 500, 000
August 5, 1903.....	1, 000, 000
September 19, 1903.....	500, 000
September 30, 1903.....	500, 000
October 20, 1903.....	300, 000
Total.....	6, 800, 000

The disbursements to date of this report, October 31, have been:

For purchase of silver bullion, San Francisco .....	\$3, 962, 935. 20
For purchase of silver bullion, Philadelphia .....	2, 324, 589. 29
For blanks for minor coinage .....	99, 108. 00
For coining, Philadelphia .....	81, 861. 62
For coining, San Francisco .....	99, 000. 00
For advertising certificates of indebtedness .....	1, 494. 63
For distinctive paper .....	9, 570. 00
For insurance .....	9, 237. 26
For freight and express .....	7, 231. 54
For packages and packing .....	4, 685. 43
For miscellaneous coinage expenses .....	1, 755. 86
For preparing silver certificates .....	13, 659. 48
Total .....	6, 615, 128. 31

The blanks for minor coinage were furnished under a contract at a cost of 0.2812 cents per pound for the bronze blanks and 0.5388 cents per pound for the nickel blanks. The United States mints at Philadelphia and San Francisco are paid a uniform rate of 1 cent per silver peso or 2 per cent for coining.

The purchases of silver bullion have necessarily been made from a limited number of corporations, who practically control the output. During the period covered by this report payments have been made for the following:

Name of firm.	Ounces.	Amount paid.
American Smelting and Refining Co .....	5, 090, 431. 35	\$2, 726, 931. 51
Anglo-California Bank .....	1, 024, 495. 04	545, 906. 90
Handy & Harmon .....	775, 204. 79	412, 515. 01
United Metals Selling Co .....	541, 046. 96	286, 279. 35
Selby Smelting and Lead Co .....	2, 586, 191. 91	1, 401, 376. 86
Thanahauser & Co .....	11, 827. 86	5, 894. 12
Baltimore Copper and Refining Co .....	97, 969. 76	48, 788. 94
American Exchange National Bank .....	140, 029. 05	75, 804. 92
J. & W. Seligman & Co .....	770. 93	419. 77
H. Wadsworth, cashier .....	50, 337. 80	27, 383. 76
Wells, Fargo & Co. Bank .....	209, 942. 84	113, 275. 23
Nevada National Bank of San Francisco .....	62, 671. 89	32, 824. 40
Total .....	10, 590, 920. 18	5, 677, 400. 77

In addition to the purchases above mentioned there should also be included \$610,123.72, being amount expended for 1,115,234.52 ounces of fine silver contained in the Pius award fund of 1,420,682.67, Mexican, purchased from the Department of State at the London price at the time of delivery at the San Francisco mint. These Mexican pesos were melted, refined, and recoined into Philippine pesos, and have been shipped to the Philippines by United States army transport.

There have also been accepted the following amounts, for which payment has not yet been made:

Name of firm.	Number of ounces.	Price per ounce.
Shelby Smelting and Lead Co .....	100, 000	\$0. 60
	75, 000	.5990
	150, 000	.5970
	100, 000	.5975
	100, 000	.60125
	100, 000	.6047
	175, 000	.5950
	30, 000	.59

Name of firm.	Number of ounces.	Price per ounce.
Anglo-California Bank -----	65,000	\$. 5970
	50,000	. 5980
	50,000	. 5980
	100,000	. 5975
	70,000	. 5985
	80,000	. 6040
	127,000	. 6045
	50,000	. 5950
	54,000	. 59
Hongkong and Shanghai Bank -----	85,000	. 5960
	25,000	. 5975
American Smelting and Refining Co -----	125,000	. 5984
	20,000	. 5925
Handy & Harmon -----	75,000	. 5920
Total number of ounces -----	1,806,000	-----

The prices at which silver has been offered and accepted ranged from 49.10 cents per ounce, which was the first rate paid, to 60.47 cents per ounce. The average price per ounce for the period has been 54.53 cents.

#### COMPLETION OF BULLION PURCHASES.

In pesos, subsidiary, and minor coinage there have been shipped to Manila a total of ₱17,881,650, which the Philippine Commission have advised are ample for inaugurating the new Philippine coinage, when supplemented by the Spanish-Filipino coins in the islands, which are to be recoined. A recent careful estimate, after examination of the archives, shows, in the opinion of the Commission, that instead of the hitherto estimated Pfs.6,000,000 to Pfs.8,000,000 there are from Pfs.11,000,000 to Pfs.12,000,000 of this Spanish-Filipino coinage of all denominations in the islands.

It is the purpose of the Philippine Commission to demonetize Mexican currency on January 1, 1904, on which date the Commission purposes to take steps to get into the treasury all Spanish-Filipino coinage, ship same to San Francisco for recoinage into new Filipino coins, and reship to the islands by returning transport, thus giving an amount of about ₱28,000,000 in the new coinage, the minimum sum originally estimated as adequate for the initial circulation of the new coins, and which will, within the judgment of the Commission, furnish sufficient silver for recoinage to serve all purposes for a long time to come.

The Commission has, therefore, with the approval of the Secretary of War, suspended further purchases of silver bullion.

#### SHIPMENT OF COINAGE TO MANILA.

This Bureau assumed entire charge of the delivery of these coins to Manila. The first shipment of Philippine coinage was made from the San Francisco mint by United States Army transport sailing May 1, 1903, consisting of ₱1,200,000. The first shipment from the Philadelphia mint was made on May 26, 1903, and forwarded via New York and thence by steamer to Manila, consisting of ₱2,000,000.

The shipment of this completed coinage was a matter fraught with much risk and responsibility, demanding serious attention to protect the Philippine government from the embarrassment which would follow a loss, and at the same time to secure its expeditious transfer to Manila at the minimum cost.

In so far as shipments from San Francisco were concerned, with the

cooperation of the military establishment, it has been the practice to designate some officer already under orders to proceed to the Philippine Islands to report to the superintendent of the mint at San Francisco thirty days prior to the date on which he had already been ordered to proceed to Manila. He is there required to daily superintend the packing of the Philippine coinage, and just prior to the monthly sailings of the transports the same is carried by him under military guard in Government wagons to the transport, where it is stored in a suitable compartment under proper guard, and upon arrival at Manila is delivered to the treasury of the Philippine Islands by the officer who has accompanied it from San Francisco. This practice has been satisfactorily followed with each monthly shipment.

It was found that the express charges for transportation from Philadelphia to San Francisco, in order to permit of the free water shipment via transports, were excessive. In view of the volume of the shipment and the condition of the insular revenues, it was necessary to provide, if possible, a more economical route. Thorough investigation and inquiry resulted in a method of shipment by express to New York and thence by steamer to Manila through the Suez Canal. The saving by the adoption of this route was approximately \$5,000 for each million pesos, and when one considers that the probable ultimate coinage will exceed ₱50,000,000, the consequent saving on the amount shipped in this way, although the length of the voyage is some twenty-four days longer, can be appreciated.

#### INSURANCE.

It was also necessary that the Philippine government be safeguarded in every way possible against loss, as the loss of even one shipment, sometimes aggregating ₱2,000,000 to ₱3,000,000, would seriously embarrass the Philippine treasury. An exhaustive investigation was made as to the best and most economical means of affording this protection, and a special form of insurance has been placed on all shipments from San Francisco and Philadelphia, which guarantees the insular government against loss from all causes, including theft, from the time of the leaving of the vaults of the United States mints until the time of delivery into the treasury vaults at Manila. This form of insurance is also free from averages and other provisions generally contained in insurance policies, whereby payment is only made in case the loss exceeds a fixed percentage. The hitherto or ordinary rates for the insurance of bullion or standard moneys—treasure—would have entailed a large expense in the shipment of this coinage from the United States to Manila. In fact the best rate quoted to the Treasury Department was 55 cents per \$100 bullion value, and it was necessary to finally go to the English Lloyds, where an insurance rate of 16½ to 19 cents per \$100 bullion value was secured for the first shipment, which, after competition between New York steamship lines, was forwarded as cargo at the usual rate of \$5.30 per ton. The weight of the first shipment was 65 tons.

Subsequent shipments have been made from Philadelphia, via express to New York and thence by steamer to Manila, the transportation cost of which since the first shipment has generally been based on a rate of one-eighth of 1 per cent, bullion value, and insurance not to exceed 20 cents per \$100, bullion value, according to the condition of the insurance market.

Monthly shipments have been continued from San Francisco as

already outlined. At this time there have been coined and forwarded ₱11,355,000 from San Francisco, and from the Philadelphia mint coinage of the denomination and value as follows:

	Value in pesos.
Peso.....	2,790,000
Fifty centavo.....	1,550,000
Twenty centavo.....	1,070,000
Ten centavo.....	510,000
Five centavo.....	442,500
One centavo.....	106,000
One-half centavo.....	59,750
	<hr/> 6,528,250

#### TEMPORARY CERTIFICATES OF INDEBTEDNESS.

Section 6 of the coinage act authorizes the issuance by the Philippine government of temporary certificates of indebtedness to the extent of \$10,000,000, of which not to exceed \$3,000,000 at any one time can be used as a continuing credit for the purchase of silver bullion.

Immediately upon the passage of this act the matter of the preparation of these certificates was taken up with the Treasury Department.

The Secretary of War cabled to Governor Taft recommending that temporary certificates of indebtedness to the amount of \$2,000,000, gold, be authorized by the Philippine government and disposed of by this Bureau, and on March 23, 1903, Governor Taft advised the Secretary of War that the Philippine Commission had on that day passed an act authorizing an issue of \$3,000,000, in conformity with the act of Congress, to bear interest not to exceed 4 per cent, payable quarterly, in the denomination of \$1,000 United States currency, redeemable in gold coin of the United States not later than one year from the date of issue, to be disposed of at such rate of interest or premium as might be secured. The enactment also required that a full report of the action taken thereunder be made to the auditor and treasurer of the Philippine Islands.

At the request of the Secretary of War, the Secretary of the Treasury authorized the statement that the temporary certificates of indebtedness of the Philippine Islands "will be accepted as security for United States bank deposits whenever further deposits may be made, and may at any time be substituted for Government bonds now held as security for deposits on condition that the Government bonds thus released be used as security for additional circulation."

This statement, together with the fact that the act of Congress had exempted the certificates from all forms of taxation, led to the belief that a fair premium might be expected, in spite of the fact that they run but one year and bear 4 per cent interest. This belief was not shared by many of the leading financiers of the country, among them some public-spirited bankers, who, nevertheless, offered to underwrite the temporary certificates of indebtedness at par, or a slight premium, one-half of 1 per cent, and to market them without cost to the Philippine government. However, with the approval of the Secretary of War, it was decided to put this first issue of \$3,000,000 of temporary certificates of indebtedness on the market to the highest bidder, giving everybody a chance to purchase. On April 1, 1903, a formal notice to bidders was given of this \$3,000,000 issue, to date from May 1, 1903, the bids to be opened in this office in the presence of bidders on April 20, 1903. In the meantime, by the expeditious cooperation of the Bureau of Engraving and Printing of the Treasury Department,

the certificates were prepared and engraved in denominations of \$1,000, bearing the vignette of Washington, with three coupons payable quarterly, bearing the signatures of W. H. Taft, civil governor, Frank A. Branagan, treasurer of the Philippine Islands, and attested, under authority of the Philippine Commission and the Secretary of War, by the Chief of this Bureau.

The widest publicity of the proposed sale of the temporary certificates of indebtedness was given by advertising in the leading American dailies and financial papers, with the satisfactory result that when the bids were opened on April 20 it was found that the issue had been a number of times oversubscribed. The offer of Fisk & Robinson, of New York, of \$102.513, or a premium of \$2.513 per \$100 worth of certificates, for the entire issue was the most advantageous to the Philippine government, and they were consequently given the award.

It was deemed proper that the proceeds of the sale of these temporary certificates of indebtedness should draw interest in the bank where deposited, and to that end tenders for the same were asked of the two New York depositaries for Philippine funds—the Guaranty Trust Company of New York and the International Banking Corporation. The tender of the Guaranty Trust Company was the most advantageous to the Philippine government, namely,  $3\frac{1}{2}$  per cent on daily balances, and was accepted.

The three thousand \$1,000 certificates were sent to New York by two representatives of this Bureau to save the large cost of expressage, and on May 1, as promised, they were turned over by the Guaranty Trust Company of New York, insular depositary for Philippine funds in New York, to the successful bidders, who deposited therefor with said insular depositary \$3,075,390. If this amount could have remained at the agreed rate of interest,  $3\frac{1}{2}$  per cent on daily balances, there would have been a profit of \$63,028.65 on this issue at the end of a year.

On June 30, 1903, the Philippine Commission, in conformity with the recommendation of the War Department, and within the discretion conferred by the Philippine coinage act, authorized a second issue of \$3,000,000 temporary certificates of indebtedness.

The proceeds of this second issue of \$3,000,000 were to be used exclusively for the maintenance of the parity, as provided by the act authorizing the issue. With slight change in the language and modifications as to dates, the plates prepared for the first issue were found to be suitable for the second.

Proposals to bidders under date of July 9, 1903, and similar to the first proposals, gave the information that the certificates would be dated September 1, 1903, and that bids would be opened in this Bureau in the presence of bidders on August 25, 1903, at which time it was found that the bid of Harvey Fisk & Sons, of New York, \$102.24 per \$100 for the entire issue, was the most advantageous, and the award was made accordingly.

The Guaranty Trust Company of New York had previously agreed to give the same rate of interest on daily balances— $3\frac{1}{2}$  per cent—on the proceeds of this second sale.

When one considers the comparative state of the market on the date of this sale, it is believed that the premium secured was as satisfactory as that on the first issue. The resulting profit in this second sale, should the proceeds of the same remain on deposit for one year, would be \$54,522.

The result of these two sales is gratifying as a demonstration of the confidence of the public in the stability of the Philippine civil government.

## SILVER CERTIFICATES.

Among other provisions, the above-quoted act of March 2, 1903, section 8, authorized the treasurer of the Philippine Islands, in his discretion, to receive deposits of the standard silver coins of 1 peso in sums of not less than 20 pesos, and to issue silver certificates therefor in denominations of not less than 2 or more than 10 pesos, and coin so deposited to be retained in the treasury and held for the payment of such certificates on demand and used for no other purpose. Provision was also made that these certificates should be received for all public dues in the Philippine Islands.

This matter, upon the passage of the above act, was taken up by cable with the Philippine Commission with the result that the denominations of 2, 5, and 10 pesos were decided upon for issue, with the respective vignettes of Rizal, McKinley, and Washington. It was then actively taken up with the Bureau of Engraving and Printing of the Treasury Department, as well as with the chief of the division of loans and currency. The Secretary of War directed that these silver certificates should express the sovereignty of the United States, as well as show that they were certificates of the Philippine government, as is required by the law with respect to the coins. It was also determined to make the Philippine silver certificates distinctive from those of the United States Government in size and color. Blue was selected for the 2-peso note, red for the 5-peso note, and brown for the 10-peso note.

Models were prepared along these lines, and received the approval of the Secretary of War, and upon the cabled authorization of the Philippine government the Bureau of Engraving and Printing prepared the plates. The Secretary of the Treasury was requested to prepare notes in the denomination and value as follows:

₱3,000,000 in 2's.  
6,000,000 in 5's.  
6,000,000 in 10's.

With these silver certificates, as well as with the coinage, the question of their safe as well as economical delivery at Manila demanded serious attention. On account of the high rate of expressage to San Francisco it was decided that the certificates should not be completed in Washington, but forwarded to Manila without the seal of the Treasurer and without the overprint, in color, showing the denomination of the note. To this end a separating machine to cut the notes in each sheet and the necessary dies and plates and Treasurer's seal, also presses for same for the completion of this paper money, were shipped by express to San Francisco and thence by army transport to Manila.

The silver certificates were packed in tin-lined boxes, securely strapped, and with the cordial cooperation of the General Superintendent of the Railway Mail Service, who evolved a system of "pony express," these boxes were forwarded by special Railway Mail Service messengers from Washington to San Francisco and there turned over to the officer in charge of the monthly coinage shipment to Manila, to be carried by him, under proper guard, for delivery to the treasurer of the islands.

Up to the present time there have been completed and forwarded to Manila silver certificates of these three denominations, aggregating:

₱2,000,000 in 2's.  
4,000,000 in 5's.  
4,000,000 in 10's.

## ISSUE AND REDEMPTION OF SILVER CERTIFICATES.

After careful study of the method followed by the United States Treasury Department in the issue and redemption of its silver certificates, this Bureau made an exhaustive report thereon, accompanied by a supply of blank forms, which was forwarded to the civil governor of the Philippine Islands for his information.

## AID AND COOPERATION OF THE UNITED STATES TREASURY DEPARTMENT.

It is a pleasure to recommend here, on behalf of the Philippine government, an official expression of thanks and appreciation of that government to the officers and various bureaus of the Treasury Department for their splendid cooperation, aid, interest, and expert advice in carrying out this great work. This is especially true of the Bureau of the Mint, the Philadelphia and San Francisco mints, and the Bureau of Engraving and Printing.

## APPENDIX K.

### THE GOLD-EXCHANGE SYSTEM IN OTHER COUNTRIES.

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#### I. THE MONETARY SYSTEM OF GERMAN EAST AFRICA.

[Prepared by the German Foreign Office.]

The currency in German East Africa up to the year 1890 consisted mainly of Indian rupees. In 1890 the German East Africa Company was permitted to coin silver and copper coins of the rupee valuation for German East Africa. These coins, of which the silver coin bears the image of the German Emperor and the copper coin the German imperial eagle, had been put into circulation together with the coins issued in British India and had the same value as those Indian coins. These German coins were also in circulation in Zanzibar, which is a protectorate under the British Government. These conditions had not been changed when the government of British India, in June, 1893, made their coins independent of their bullion value by suspending their free coinage, and sought by this action to assure for them a gold value far in excess of their contents in bullion.

As the German East Africa Company were subject to great restrictions regarding the coinage to the extent that their own coins were less numerous in German East Africa than the Indian rupees, the rupee of the company kept the same value as the Indian rupees, and finally participated in the rise of the English rupee in gold value. But as it was felt that no sufficient guaranty was given for the continued maintenance of the standard gold value of the rupee while the right of coinage for German East Africa was in the hands of a private company, the government of the colonies entered into negotiations with the private company, with the object of resuming the right of coining money. These negotiations led to the agreement between the imperial chancellor and this company, dated November 15, 1902, in which the company renounces, besides other privileges, the right of coining money. This agreement has been in force since April, 1903, so that from that date the government has again possessed the exclusive right of coinage.

A few days prior to this time the English authorities in Zanzibar refused the acceptance of further German rupees at the public pay stations. Through this action danger arose that the German rupee would lose value in comparison to the Indian rupee; but such a decline in value has been prevented by a contract made by the German administration of the colonies with the German East Africa Company (which latter had their principal headquarters in Zanzibar), to the effect that the company in Zanzibar should exchange the German rupee at par against Indian rupees, while, on the other hand, the

government of German East Africa should redeem from the company the rupees thus exchanged against gold drafts on the colonial office. This arrangement, of course, was only temporary, and was intended only to prevent a decline in the value of German East Africa money up to the time that the German Government should establish a standard for the German East Africa coinage, which object has been attained to a full extent.

No final decision has been reached regarding the establishment of a coinage system. The imperial Government has a plan under consideration involving the coinage of Government rupees for East Africa, which shall take the place in the future of the coin which is now in circulation in German East Africa, contemplating also that this Government rupee shall bear a fixed ratio to the German gold standard, and, further, that this ratio shall be maintained through operations of the financial administration of the colonies, which is always in a position to draw gold drafts on the office in Berlin.

## II.—THE MONETARY SITUATION IN THE KHANATE OF BOUKHARA.

[Note from Mr. Wischnegradski.]

The monetary system of the Khanate of Boukhara is based on silver, like that of other Asiatic states. The monetary unit is the tanga, containing about 72.2 doli of fine silver. The tanga is divided into 64 roulls, copper. Besides, there exist in small quantity a gold coin, the tella, of a nominal value of 20 tangas. The coinage of tangas is made either with silver purchased upon the market by the ameer or on private account. In the latter case there is levied a special tax. The quantity of tangas coined having been found to surpass by far the needs, and at the same time the price of silver bullion having fallen decidedly on the world's market, the value of the tanga fell considerably. The situation created by this state of things took a character still more acute when, in order to prevent Russia being flooded by the depreciated metal, that country prohibited the importation into Russia of foreign silver moneys, even of the tangas of Boukhara which were in circulation in Turkestan. This measure has been effective so far as it affects the tangas, since the ameer has pledged himself to permit the coinage of tangas only so far as he shall receive the consent of the Russian Government. The suppression of the coinage of tangas bettered the situation only to a certain degree. The value of the tanga continued to be very unstable under the influence, it is true, of factors which were purely local.

Thus during the fall in the cotton market the value of the tanga reached 17 kopecks, while the value which it contained would have fixed it at only 10 kopecks. With a view to improving positively the monetary circulation in Bokhara, of which the defects were injuring decidedly the commercial operations, the Russian Government took the following measures: In accordance with a decree determined in the committee of finance on the 16th of April, 1900, the ameer pledged himself not to reestablish the coinage of tangas. In agreement with him the value of the tanga was fixed at 15 kopecks. At this rate the tanga is received in all payments to be made to the imperial treasury and to the bank of the State. Everywhere in the territory of the Khanate of Bokhara and in a part of the territory of Samarcand at this same rate taxes and the rates due to the government of the ameer are payable. The payments may be made in Russian money or in Bokhara money. In order to insure the stability of the rate of exchange

the branch of the Bank of the State of Bokhara has opened a bureau for the exchange of Russian money in return for tangas, and vice versa, and this at the rate above mentioned of 1 tanga to 15 kopecks. To attain this object there has been constituted a fund of 45,000,000 tangas by way of purchase. For nearly two years now these measures have been applied, and experience has shown that the fund of tangas instituted, as has been said above, is entirely sufficient for the permanent exchange, and that this operation, taken together with the measures mentioned, maintains the value of the tanga at the price which had been fixed.

### III.—CURRENCY CHANGES IN SIAM.

[From United States Consular Reports, February, 1903.]

Vice-Consul-General J. P. Selden reports from Bangkok, December 6, 1902, that Siam has closed the mint at Bangkok to the free coinage of silver, and has taken the initial steps to place herself upon a gold basis. Mr Selden adds:

The tical, the standard coin of the realm, has up to this time had a fixed ratio value to the Mexican dollar of 60 to 100. The steady fall in the value of silver during the last six months has therefore greatly diminished the value of the tical until, during the latter part of the month of November, 1902, £1 was equal to 21 ticals and a fraction.

On November 27, 1902, a notice appeared in the several local papers that the royal mint would no longer issue ticals to the public in exchange for gold, silver, or copper, whether presented in the shape of bullion or coins. At the same time the ratio of 17 ticals to £1 was fixed as the rate at which the Siamese minister in London would issue demand drafts on Bangkok against pounds sterling in London. This change paralyzed the business interests for the time, as the banks were liable for large amounts.

Under date of December 12, Mr. Selden reports that an arrangement has been made whereby the banks will sell drafts on London at 20 ticals per £1 and buy at 19.25 ticals per £1.

### IV.—THE GOLD STANDARD IN PERU.

[From the Annual Report of the Director of the Mint for 1902, p. 333.]

Mr. Neill, secretary of legation at Lima, under date of October 21, 1901, sends a translation of an editorial which appeared in *El Comercio*, of that city, regarding the establishment of the gold standard. The article says, in part:

“More than four years ago the Government of Peru suspended the free coinage of silver as the first step toward the establishment of the gold standard on the basis of 24d. (48.6 cents) as the fixed value of the monetary unit. A decree was issued, in accordance with the law of October, 1897, ordering the payment of import duties to be made in gold, a pound sterling to equal 10 soles in the payment of import duties, a fine of 5 per cent being imposed on payments not made in gold. The first of these measures established by law the ratio of 1 to 10 between the pound sterling and the Peruvian sol, and the second facilitated the introduction of gold coin into the country. The law empowered the Government to use the amount derived from the 5 per cent fine to defray the expense of remelting the silver soles into bars. This measure, while it caused the amount of silver coin in circulation to diminish, also caused an increase in the amount of gold in circulation.

"In fact, the withdrawal of 2,500,000 soles and their conversion into pounds sterling (English gold) at an expense of but 350,000 soles was the introductory step toward the adoption of the gold standard. Since January 1, 1898, up to date over £600,000 (\$2,919,900) have been imported and £200,000 (\$973,300) have been coined at the mint. The mint is thoroughly established, and a law has been passed making the Peruvian gold pound legal tender to any amount. Little gold has left the country, while the production of domestic gold increases year by year.

"The anxiety which has prevailed during the past few days on account of the hoarding of gold coin points to the advisability of putting an end to the transition period and of limiting the purchasing power of our silver soles by fixing a maximum, which may be reduced from year to year. By this means all doubts as to the higher or lower relative value of the two legal tenders, which have existed up to the present, will be settled and the absolute gold standard established in our monetary system. While the present order of things continues, any prospect of gain will lead to the hoarding of either gold or silver, thus causing a scarcity of circulating medium. Common sense suggests that we adopt an absolute gold standard. This was the intention when the monetary reform was begun, and to this end the project submitted to the Senate yesterday, declaring the Peruvian gold pound to be the monetary unit, has a direct tendency.

## V. THE QUESTION OF EXCHANGE IN ITALY.

[Translation of extract from *The Economic and Financial Situation of Italy*, by Edmond Théry.]

\* \* \* In order to make up the enormous deficits of the period between 1861 and 1891, the Italian treasury was not satisfied with appealing to foreign credit. It had also used and abused the fiduciary circulation of the National Bank of Italy (liquidated in 1893), and, independently of this circulation, its own issues of Government notes reached the sum of 340,000,000 lire on December 31, 1883; 400,000,000 on December 31, 1894, and 576,000,000 on December 31, 1897.

On these three dates the total circulation of bank bills and Government notes in Italy was, respectively, 1,134,000,000, 1,526,000,000, and 1,662,000,000. On December 31, 1902, the circulation of the banks was 1,175,000,000, and that of Government notes 411,000,000, or a total of 1,586,000,000 lire.

Between 1897 and 1902 the volume of Italian credit issues has, therefore, been reduced by 76,000,000 lire, and this simple reduction, when compared with the very real improvement in the economic and financial situation of Italy, especially since 1899, explains the progressive fall in Italian exchange, which to-day maintains itself at about par.

The influence of the volume and the quality of the fiduciary circulation upon the premium on gold is no longer contested in Italy. As early as 1898 Commander Luigi Bodio, the learned secretary of the International Statistical Institute, taking as his guide the various phases of the Greek monetary crisis, of which he had made a study on the ground, had demonstrated that "the quantity of bills in circulation in a country with a depreciated currency is the prime factor which influences the premium on gold in that country, and that each time that the total of these bills increases exchange rises, and, inversely, the rate of exchange is always reduced when the total diminishes."

The results of the study of Commander Bodio may be stated as follows:

“In a country with a forced legal-tender currency all merchandise has two prices—the price in paper money and the price in gold. The price in paper is governed by the quantity of bills in circulation and their value; this latter, in its turn, is influenced by the probability of the redemption of the bills at a given time, by the anticipation of possible new issues, by the payments which the government must make to foreign countries, by the balance of trade, and by the general equilibrium of the rates of exchange with foreign countries.

“Notwithstanding the violent fluctuations produced by the psychological element, the variations are continually brought back to a center of gravity determined by the quantity of the circulation, which, having a limited market, can not unload its excess in foreign countries.”

These conclusions have been admitted by Mr. Maggiorino Ferraris in the very interesting studies which he published, in 1898 and 1899, in the *Nuova Antologia* (studies which we have reprinted in the *Economiste Européen*), and we know that they have been confirmed by Mr. Henri Germain, the eminent president of the board of directors of the *Crédit Lyonnais*, who has established—in regard to the question of Spanish exchange, and guided by careful study—“that there is but one factor that exercises a decisive influence upon the rate of exchange on paper money, it is the greater or less quantity of this paper. Every time its volume exceeds the needs of the circulation paper money depreciates, and its depreciation is in direct ratio to its superabundance. There is but one means, but one only, of restoring the rate of exchange on paper money to par, and that is to reduce the amount in circulation to the amount of which the public has need.”

\* \* \* \* \*

The following table will demonstrate the progressive improvement which has resulted from this in regard to Italian exchange:

*Italian exchange on Paris.*

Year.	Highest rate.	Lowest rate.	Average rate.
1892	105.12	102.27	103.69
1893	115.95	104.05	110.00
1894	115.70	106.25	110.97
1895	109.50	104.12	106.84
1896	112.50	104.25	108.37
1897	106.42	104.20	105.16
1898	109.90	104.75	107.00
1899	108.60	105.70	107.34
1900	107.42	105.35	106.46
1901	105.92	101.50	105.41
1902	102.75	100.12	101.49
1903 (4 months)	100.17	99.92	100.04

We have already stated that between December 31, 1897, and December 31, 1902, the circulation of the banks and of Government notes had been reduced by 76,000,000 lire; during the same period the Italian treasury reimbursed about 70,000,000 in notes advanced by the banks, and the reserves of all kinds formed in these establishments increased by more than 120,000,000 lire. There has, therefore, been a reduction in the volume of credit issues and an improvement in its quality.

It was at the end of 1893 that Italian exchange reached the highest point; the explanation of this has been given in our chapters on “The public debt” and on “Banks of issue.” At that time Mr. Sidney

Sonnino, minister of finance in the Crispi cabinet, adopted various measures which had a marked influence upon the course of exchange and of which the most efficacious was, beyond doubt, the decree of March 28, 1894, directing that Italian duties should in future be payable in specie current in Italy.

Italy belonging to the Latin Union and its silver crowns being received at their parity with gold by the French treasury (as also the crowns of all the other nations in the union), the decree of 1894 meant no more nor less than that the payment of Italian duties should be made in gold.

I was directed by our minister of finance, Mr. Burdeau, to study the reasons which had induced the Italian Government to take this step, of which our commerce was complaining, and Mr. Sonnino, to whom I was introduced by Mr. Ferraris himself, gave me the following explanations, which I ask permission to reproduce:

It appeared from an examination made at the instance of the ministers of finance and of post-offices and telegraphs, that the amount which Italy annually received from foreign countries, either through remittances by Italian emigrants, through foreigners who came there to visit the country, or through the coupons of foreign securities owned by Italian capitalists, was at least equal to, if not greater than, the sums which it owed foreign countries, either on account of the trade deficit, or for the payment of that portion of the national debt due foreign countries, or for Government expenses.

Theoretically, Italian exchange should have been at about par. Why had it risen by almost 16 per cent? And why did it have a marked tendency to rise still higher?

"Because," Mr. Sonnino told me in substance, "as our circulation possesses no more specie, and as our banks of issue, owing to defective organization, are not in a position to defend our exchange (Italy then had five banks of issue, of which two were bankrupt), the treasury, and Italian stock companies, and individuals who have payments to make abroad are the victims of the money changers.

"It is they that appropriate the greater part of the gold that comes to this country, and as they know the needs of the country, they profit from the fact to sell their gold at prices manifestly exaggerated.

"The interests of the Italian treasury, and with them those of the nation, are greatly injured by this state of facts and the Government is powerless against these money changers, as it would be necessary to formulate a special law in the matter, or to take steps of a particularly delicate nature.

"But what the Government can very easily do is to take from them the principal element of their speculation, that is, the patronage of the treasury. As a matter of fact, nearly all taxes are paid in bank notes, and it is always precisely at the time the treasury begins its purchases for the purpose of effecting its remittances abroad that exchange goes up. And when it goes up a point or two it does not come down again, because the money changers know very well that the treasury will necessarily have to go through the same operation again in a short time.

"Now, our receipts for customs duties represent about the aggregate of the sums which the treasury must pay each year abroad for all the departments of the State. Therefore, by requiring the payment of these duties in specie, it would mean cash coming into the coffers of the treasury, and our foreign remittances would gradually be effected normally without the ruinous intervention of the money changers.

"These latter, becoming thus assured that the treasury—the amount of whose needs they know, as also the dates when its obligations fall due—would no longer enter the open market to purchase the exchange that it required for its foreign payments, would no longer expose themselves to the risk of holding it back, as they have done in the past. They would sell it at a smaller profit as soon as they found an opportunity, being free, of course, to buy it back cheaper themselves. There would necessarily result a progressive lowering in the rates of exchange, or, more properly, a new limit of fluctuation in the premium on gold, more in keeping with the real economic situation of Italy."

I drew Mr. Sonnino's attention to the facts, first, that the payment of customs duties in gold had the disadvantage of indirectly increasing these duties by the difference in exchange; second, that Italian importers might perhaps find it difficult to obtain gold, since none existed in the circulation of Italy.

"There would be a disadvantage to Italian importation," answered the minister, "only in case the measure did not lower the premium in gold; but in the probable event of the lowering of exchange the importer would have a great advantage, since this decrease would reduce in an equivalent proportion the price, in Italian paper money, of all goods purchased abroad."

As to the question whether the Italian importers could easily secure the specie required for the payment of customs duties, Mr. Sonnino simply called my attention to the fact that these importers already secured it for the payment of goods purchased abroad, although the price of these goods was five or six times greater than the Italian customs duties. He added that these importers were, therefore, in a better position than the treasury to procure foreign exchange, since they had the practical experience of the market and the personal responsibility of the operation; that their needs had not the imperative character of those of the government; that they could, according to circumstances, reduce their stocks, reduce the amount of their purchases, or extend their terms of credit; that, being unknown and divided into innumerable parts, these needs could not be gauged by exchange speculation, as could so easily be done in the case of the treasury, and that for all these reasons their isolated action would certainly not have upon the said market the same influence in the sense of advancing exchange as the purchases in bulk made by the treasury.

The effect of the measure taken was immediate. We find the proof of this in the statement of the various items of the budget of 1895-96, which Mr. Sonnino presented to the Italian Parliament at the end of 1894.

After having indicated the means which he proposed for assuring the equilibrium of the budget—which Italy had not enjoyed for a great many years—and for regulating the monetary circulation of the country, Mr. Sonnino said:

"Let us provide for the budget; let us maintain the equilibrium; let us improve the conditions of the circulation and the treasury will be able to meet its obligations notwithstanding its unfortunate inheritance of the past.

"The proof of this lies in what has been done since the month of January, 1894, up to this day (December 10 of the same year), during which time 90,000,000 in small coin were withdrawn from foreign countries, and there were canceled, without reissuing, 28,000,000 of

treasury bonds, and 42,000,000 of gold due to Berlin—all this without disturbing the decreasing fluctuations of exchange, nor requiring any issue of public securities.”

And in terminating this summary review of the principal elements of the economic and financial situation of Italy the minister added:

“There has sprung from this a noticeable improvement since the month of January, and even since the month of June. Italian Government bonds were quoted at Paris at 72 francs in January and at 78 francs in June, and to-day they oscillate in the neighborhood of 86 francs. During the same period exchange has gone down from 16 per cent to about 7 per cent.”

The average of Italian exchange, which fell to 105.16 in 1897, rose to 107 in 1898 and to 107.34 in 1899. This increase may be attributed, first, to the bad cereal crops of 1897-98; second, to the troubles of the month of May, 1898, which, beginning in the southern provinces, owing to the increase in the price of bread, spread rapidly in the north and in Milan itself, where a real political insurrection was suppressed by force of arms; third, to the increase in the fiduciary circulation of the Bank of Italy, which rose successively from 789,000,000 lire in 1897 to 831,000,000 in 1898 and to 882,000,000 in 1899; fourth, finally, to the repatriation during these last two years of Italian securities marketed abroad, a repatriation which was much too great for the actual resources at the country's disposal.

According to the official statistics of the Italian treasury, the net payments made to foreign holders of Italian Government securities had risen to 102,339,000 lire in 1894-95, to 102,540,000 lire in 1895-96, to 105,331,000 lire in 1896-97, and to 106,607,000 lire in 1897-98. During this period of four years Italy, far from repatriating its foreign debt, had thus, on the contrary, a tendency to increase it.

In the budget of the fiscal year 1898-99 the net amount of foreign payments fell suddenly to 95,892,000 lire, and in the following fiscal year to 83,501,000 lire. In two years, therefore, Italy has repatriated 23,106,000 lire in interest on Government bonds, or a capital of about 580,000,000 lire. It is evidently not real savings that have realized all these foreign purchases, and this is demonstrated by the increase in the volume of the fiduciary circulation of the Bank of Italy, whose portfolio of discounts and advances on securities rose from 195,000,000 lire on December 31, 1897, to 367,000,000 lire on December 31, 1899.

It can therefore be said that without the understanding effected at the end of 1898 between Italy and France—an agreement which had so happy an influence on the foreign credit of Italy, since the quotations on Italian 4 per cent Government bonds, which had been on an average in Paris only 91.98 francs in 1898 and 94.15 in 1899, were above par at the end of 1901 and closed at 101.45 francs on December 31 following—Italian exchange in 1898 and 1899 would certainly have reached the level of 1893-94.

## APPENDIX L.

### GENERAL DISCUSSIONS ON THE SUBJECT OF STABLE EXCHANGE.

#### 1. THE INFLUENCE OF FALLING EXCHANGE UPON THE RETURN RECEIVED FOR NATIONAL PRODUCTS.

[Argument submitted to the monetary commission of the Republic of Mexico, April 18, 1903, by Messrs. Charles A. Conant, Jeremiah W. Jenks, and Edward Brush.]

[Reprinted from the Bankers' Magazine for May, 1903.]

An important element in the influence of falling exchange upon national prosperity is its effect upon the real return received for that part of the national product which is sold abroad. Foreign trade is essentially the exchange of the commodities of one nation for those of other nations, rather than an exchange of commodities for money. Money serves chiefly as a means for facilitating exchanges of goods. The most important question is not how much gold nor how much silver is obtained for the products of a community, but how much in foreign products is obtained in return for a given part of the product of national labor. If a nation in payment for foreign commodities produced by the labor of one man gives up domestic commodities produced by the labor of two men, it is suffering an economic loss, if its own laborers possess the same average productive efficiency as the laborers of other countries.

The influence of a falling exchange upon foreign trade, it is generally granted, is to reduce the gold price of the exports from a silver country. The fall in the gold price of silver permits goods to be sold abroad for a falling gold price so long as wages and the cost of materials at home remain unchanged in terms of silver. It is this influence which enables a country with a depreciating currency to underbid its rivals in selling its products in markets where gold is the standard. There are, perhaps, certain temporary benefits in this condition, in extending and developing the trade of the exporting country. It is an important question, however, whether the continuous depreciation of the standard may not reach a point which will soon result in the surrender of a given quantity of domestic goods to foreign purchasers in exchange for a continuously declining quantity of foreign goods. When this occurs it is clear that the exporting country runs grave risk of suffering an economic loss, which is not compensated by the increase in its exports. This very increase in exports appears under these conditions to be the result of the conviction on the part of purchasers that the country having the depreciating standard is offering the products of its labor for a smaller return than competing gold countries.

Applying these general principles to the recent monetary history of Mexico, the question is proposed whether Mexico is not paying too dear in her own products for the foreign products which she imports, by reason of the low price of her own products, resulting from the fall-

ing gold price of silver. This can be determined, in part, by comparing the quantity of Mexican goods exported with the return at gold prices received for these goods from foreign countries.

The following table shows the value in silver of the total exports of Mexican products and their gold value at the average rate of exchange for representative fiscal years during the past two decades:

Fiscal year ending June 30—	Value of exports from Mexico.		
	In silver.	In gold.	Value of peso. <sup>a</sup>
1882.....	\$29,206,772	\$26,110,854	\$0.894
1887.....	49,329,915	38,970,633	.790
1892.....	75,660,880	63,328,157	.837
1893.....	88,044,624	57,845,318	.657
1894.....	80,083,944	43,165,246	.539
1895.....	95,020,326	48,840,448	.514
1896.....	110,022,356	58,971,983	.536
1897.....	117,784,092	59,127,614	.506
1898.....	138,068,504	61,854,690	.443
1899.....	148,453,854	70,070,210	.471
1900.....	158,247,933	75,326,016	.476
1901.....	158,009,437	77,266,639	.488
1902.....	168,041,272	74,106,200	.441

<sup>a</sup> Gold.

One of the facts which first attracts attention in examining these figures is the relatively small increase during the last few years in the gold value of the national exports. The value expressed in the money of the country has increased by leaps and bounds, from 29,206,772 pesos for the fiscal year ending June 30, 1882, to 75,660,880 pesos in 1892, 117,784,092 pesos in 1897, and 168,041,272 pesos in 1902. The question at once suggests itself whether this increase in the silver price of the total exportations means that Mexican products have been exported in largely increased quantities, corresponding to their increase in silver value, or whether higher prices in silver have been received for such products in order to maintain their gold price. In the latter case such increase in prices may be partly or wholly offset by the fall in the gold value of silver, or it may have gone beyond this and brought an actual increase in the gold value of the return obtained by the labor and enterprise of the country. If, on the other hand, it appears by comparison of the quantities exported and by their prices when reduced to gold that a larger volume of the products of Mexico has been delivered up to foreign consumers for the same or less return in the products of gold countries, then Mexico has suffered an economic loss.

Leaving aside for the moment the question of the quantities of goods exported, some light is thrown upon one aspect of this subject by reducing the silver values of goods exported to a gold equivalent at the average rate of exchange prevailing for each year, as is done in the above table. This reduction shows that the increase in the gold value of the exports of Mexico within the past ten years has been comparatively trifling. The increase in gold value of the total exports was more than 100 per cent from 1882 to 1892, during which period the gold value of silver fell only from 89.4 cents in United States gold coin to 83.7 cents. From 1892 to 1902, however, the advance in the gold value of the exports of Mexico was only 18.38 per cent. This affords an average increase in the gold value of Mexican products exported of less than 2 per cent per year upon the basis of the exports of 1892.

This is not a large increase in the gold value of the export trade of the country. It remains to be determined whether the increase in

the quantities of the goods exported has merely kept pace with the small increase in their gold value or whether it has been greater or less. If it has been materially greater, then the conclusion follows that a smaller gold return has been received for the labor and capital of Mexican citizens. Whether this diminished return has been offset by the diminished gold price of the products of gold countries imported into Mexico, is a question which will be considered in due time. For the present, however, we shall deal with that side of the problem relating exclusively to the quantities and values of the exports of Mexico.

In considering these exports the precious metals, gold and silver, may be eliminated for the present, in spite of the large part they play in the export trade of Mexico, because their export value is determined by conditions somewhat different from those which affect other natural products and manufactured goods. The exports of Mexico, aside from gold and silver, consist chiefly of several metals, fibers, and natural products. Among the more important of these articles are copper, coffee, beans, fresh fruit, ixtle, and dyewoods. The gold value of these articles exported in 1892 was \$6,483,887. The gold value of articles of the same classes exported in 1902 was \$10,781,090. The exports of all classes from Mexico in 1892, reduced to a gold value, were \$63,328,157, of which \$39,941,050 represented silver coin, bullion, and ore at the gold valuation of that year, and about \$1,000,000 the gold product of Mexico. This left the total exports of merchandise at about \$22,500,000 gold value, of which the articles enumerated constituted about 29 per cent. For the fiscal year 1902 the gold value of total exports was \$74,106,200, of which \$26,275,604 was silver and about \$9,000,000 gold, leaving the gold value of exports of merchandise at about \$39,000,000. The exports of the six articles above enumerated made about 27.5 per cent of merchandise exports.

It is necessary, in order to determine whether the country is now giving up a larger proportion of its own products for foreign products than was the case ten years ago, to ascertain whether the quantities of the articles exported have increased in a greater or less ratio than the increase in their gold value. Examination of the principal of these articles shows that with one exception the percentage of increase in the quantity exported is much greater than the percentage of increase in their gold value. In other words, every unit of Mexican production in these articles, upon the average, was sold for a less gold price in foreign markets in the fiscal year 1902 than in the fiscal year 1892. This appears from the following table, giving the percentage of increase in quantities and gold value for all these articles:

*Quantities and gold values of principal articles, 1892 and 1902.*

	Quantity exported.	Gold value.	Value per unit.
<b>Copper:</b>	<i>Kilograms.</i>		
1891-2.....	4,348,702	\$728,507	\$0.167
1901-2.....	33,606,095	4,572,842	.136
Per cent of increase.....	672.78	527.70	
<b>Coffee:</b>			
1891-2.....	11,058,279	4,615,515	.416
1901-2.....	22,203,219	4,505,823	.203
Per cent of increase.....	100.78	-2.38	
<b>Beans:</b>			
1891-2.....	1,236,037	96,760	.0782
1901-2.....	5,159,839	244,378	.0474
Per cent of increase.....	317.45	152.56	

*Quantities and gold values of principal articles, 1892 and 1902—Continued.*

	Quantity exported.	Gold value.	Value per unit.
<b>Ixtle:</b>			
1891-2.....	\$6,602,136	\$516,680	\$0.0782
1901-2.....	12,475,362	769,578	.0617
Per cent of increase.....	88.96	48.95	
<b>Dyewoods:</b>			
1892-3.....	33,186,127	438,210	.0132
1901-2.....	40,626,944	568,348	.0140
Per cent of increase.....	22.42	29.70	
<b>Fresh fruits:</b>			
1891-2.....	2,524,239	88,215	.0349
1901-2.....	5,364,553	119,921	.0224
Per cent of increase.....	112.52	35.94	

The variation between the rates of increase in quantities exported and in gold valuations in the above table reduces to somewhat concrete form the fall in the gold prices of Mexican products during the past ten years. In the case of copper 2 pounds were given by Mexican miners in 1902 for the same gold return which was brought in 1892 by 1 pound. The character of the loss to Mexican industry by these changes is made even more precise by the following table, which computes the value of the exports of these leading articles at the gold prices of 1892 and compares with this value the gold values actually returned.

*Principal articles exported from Mexico, 1902.*

Article.	Reported gold value.	Value per unit.	Gold value at unit price of 1892.
Copper.....	\$4,572,842	\$0.1360	\$5,612,218
Coffee.....	4,505,823	.2090	9,233,539
Beans.....	244,578	.0474	403,499
Ixtle.....	769,578	.0617	975,573
Dyewoods.....	568,348	.0140	536,276
Fresh fruits.....	119,921	.0224	187,223
Total.....	10,781,090	-----	16,951,328

These figures represent a decline in the gold price of these important Mexican exports amounting to about 36 per cent. It would be desirable on many grounds to include in this calculation other leading articles of export from Mexico. The most important of other articles are lead and sisal, which, with the articles enumerated, would bring the total articles dealt with up to about two-thirds of the value of the merchandise exported. If the exports of lead were taken at the prices officially reported for the fiscal year 1892, they would show a decline in gold value on the quantity exported in 1902 which would amount to more than \$16,000,000. This comparison can not properly be made, however, because in 1892 and up to 1895 the silver and lead contained in argentiferous lead were not carefully separated and classified for statistical purposes, and the values declared for the small volume of lead reported were not the commercial valuations of pure lead. In the case of sisal there is an increase in the gold value per unit of the exports of 1902 as compared with the values of 1892, which is due to special circumstances affecting the demand for this product. The war between Spain and the United States and the long-continued dis-

order in the Philippines reduced the supply of manila hemp in a way which reacted upon the demand for the similar product of Mexico and other countries. Taking the average of the articles given in the table, it appears that upon merchandise other than silver there was a loss of \$6,170,238 upon a volume of exports amounting to about 27.5 per cent of general exports of merchandise. If the same ratio of loss had extended to all exports of merchandise from Mexico it would have amounted in the aggregate to about \$22,500,000. Even if this loss is estimated at \$15,000,000 in the gold value of the articles exported in 1902 as compared with the gold prices of 1892, it represents a very large ratio to the total exports of merchandise. The increase in the quantity of merchandise exported from Mexico on this basis called for an increase in gold value from \$22,500,000 in 1892 to about \$54,000,000 in 1902. The actual gold valuation of such exports in 1902 was only about \$39,000,000. It remains to add to this considerable total the loss caused by the fall in the gold price of the silver exported from Mexico. This is indicated in some degree by the following comparison:

*Exports of silver from Mexico.*

Year.	Silver value.	Rate of exchange.	Gold value.
1891-92.....	\$47,720,371	\$0.837	\$39,941,950
1896-97.....	59,578,046	.506	30,146,491
1901-2.....	59,581,869	.441	26,275,604

The silver exports of 1902, if they had fetched the gold price of 1892, would have represented a gold value of nearly \$50,000,000, against an actual gold value at recent prices of about \$26,300,000. The loss in gold price, therefore, on the silver exported from Mexico was about \$23,700,000 for the fiscal year 1902. If this amount is added to the similar loss in the gold value of other products exported, estimated at \$15,000,000, it appears that the total loss suffered by Mexico in the gold value of her exports in 1902 as compared with 1892 can not be less than \$40,000,000 gold. This loss, moreover, is not an isolated event of a single year. It has been going on ever since the fall of silver began, and its proportions have grown rapidly in amount in every year since 1892.

There remains another side to the problem which, while thus far ignored, is vital to its intelligent consideration. The return paid by foreign countries to Mexico for her exports is ultimately not gold, but foreign goods. If the prices of these goods imported into Mexico have fallen in gold in the same degree that the prices of Mexican products exported have fallen, no real loss has been suffered on Mexican products exported, and the entire argument made up to this point falls to the ground. The fall in prices must then be due either to improved methods of production on both sides, which adds to the productiveness of the labor of the individual, or to a change in the relation of gold to human labor and its products.

It becomes necessary, therefore, to inquire whether Mexico is paying lower gold prices for her imports in a sufficient ratio to offset the lower gold prices which she receives for her exports. It is less easy to determine this side of the problem than the export side, because the articles imported into Mexico are of much greater variety and are divided much more minutely into classes by the tariff classification than in the case of the exports. In many cases, moreover, the imports are of such a character that it is impossible to classify

them by quantities, and they are entered in the official returns only by their values in money. A few representative articles which are largely consumed by the Mexican people may, however, be compared as to the ratio of quantities and prices ten years ago and at the present time.

The following table, taken from the official returns of Mexican imports at gold values at the nearest dates available, throws light on this side of the problem:

*Cost of imports into Mexico, in gold, at prices of 1893 and 1902.*

Article.	Gold value, 1902.	Value of same at prices of 1893.	Percent- age of change in price.
Raw cotton.....	<sup>a</sup> \$2,006,927	\$2,223,858	- 9.75
Cotton shirting.....	<sup>a</sup> 815,266	822,691	- .90
Cotton cloth, colored.....	453,203	453,440	- .05
Rails of iron and steel.....	2,293,863	1,760,590	+30.29
Miscellaneous machinery.....	3,490,721	3,934,762	-11.29
Steam engines.....	2,156,998	2,837,333	-23.98
Woolen cloths.....	243,992	197,043	+23.83
Coal.....	1,999,817	4,346,581	-53.99
Red wine.....	1,058,409	1,247,623	-15.17
Maize.....	518,384	664,341	-21.97
Total.....	15,067,580	18,488,262	-18.66

<sup>a</sup> Figures of 1901.

These figures indicate a fall in the gold prices of some of the chief imports into Mexico amounting to 18.66 per cent of the gold import prices of 1893. If this ratio of fall in price should be applied to the gold value of the total imports for 1902, it would show a total saving in gold prices amounting to about \$14,100,000. If this is set over against a decline in the gold price of exports amounting to \$40,000,000, the result is to leave Mexico a loser by about \$26,000,000 at the export prices of 1902 as compared with the prices of 1892 or 1893.

There is reason to believe that even this unfavorable showing under the operation of a depreciating standard is more favorable than the facts warrant. It is possible to check the import figures of the Mexican treasury to some extent by the figures of the United States Treasury for some of the principal articles exported from the United States to Mexico. The following table gives some representative items from the reports of the Treasury Bureau of Statistics of the United States:

*Quantities and gold values of several articles exported from the United States to Mexico.*

Article.	Fiscal year.	Quantity exported.	Gold values.	Cost per unit.
Corn (bushels) .....	1891-92	754,548	\$489,702	\$0.6490
	1896-97	8,825,860	3,233,583	.3660
	1901-2	746,929	477,670	.6390
Cotton (pounds) .....	1891-92	22,117,381	1,844,500	.0833
	1896-97	15,103,628	1,236,447	.0812
	1901-02	13,750,196	1,273,741	.0926
Cotton cloths (yards).....	1891-92	6,381,992	347,687	.0543
	1896-97	3,867,100	231,527	.0598
	1901-2	3,839,386	261,695	.0681
Mineral oil, crude (gallons).....	1891-92	3,499,514	238,173	.0681
	1896-97	7,090,853	349,021	.0478
	1901-2	10,844,913	550,694	.0507
Cotton-seed oil (gallons).....	1891-92	415,355	125,346	.3020
	1896-97	1,616,407	320,496	.1980
	1901-2	3,340,022	1,069,741	.3200
Lard (pounds) .....	1891-92	2,050,997	142,253	.0693
	1896-97	7,195,787	332,235	.0461
	1901-2	8,098,615	702,082	.0866

An examination of these figures shows that exports from the United States to Mexico have not fallen in value on the average during the last ten years. In most cases they have risen as the result of business activity and the expansion of credit in the United States. Thus corn, although having fallen off greatly in price in 1897, was only a trifle lower in 1902 than ten years earlier. Raw cotton materially advanced in price in ten years. The same was naturally true of cotton cloth, in spite of all the economies which have been introduced into production by improvements in machinery and administration. Mineral oil was somewhat lower in 1902 than in 1892, but cotton-seed oil, of which the consumption has greatly increased, has risen in price. Lard also, although having fallen during the period of trade depression in the United States, is now 20 per cent higher than in 1892.

These figures plainly show that the gold prices of the articles imported into Mexico from the United States have not fallen in a ratio nearly as great as the gold price of articles exported from Mexico. It would be reasonable to expect, if other things were equal, that the gold price of articles which were manufactured would fall more rapidly than the gold price of the principal articles exported by Mexico, because the saving of labor has been much greater in most cases by improvements in machinery than in the case of the natural products of Mexican farms, ranches, and mines. Mexico, in other words, should be able, as the result of competition by foreign manufacturers among themselves, to obtain a greater number of yards of cotton for a given number of pounds of copper or coffee or beans than she obtained ten years ago. The contrary appears to be the fact, and with the other facts given seems to indicate clearly that the country is suffering greatly in its economic resources by the fall in silver.

Important confirmation of the conclusions above set forth is afforded by an investigation made without reference to this subject by a leading New York financial paper, *The Wall Street Journal*, whose results are set forth in the issue of Monday, February 16, 1903. A comparison is there made of the export prices of certain products of the United States for the ten years ending June 30, 1902, and the import prices of certain leading tropical products. The substance of this article is thus summed up: "In the past ten years our commerce with tropical countries has been of increasing importance. More than that, for every successive dollar paid by us we have received increasing measure of tropical goods. Still further, we have ourselves come to be the granary of a large part of the globe, and we have increased not only the volume of our agricultural exports, but also the price per unit obtained therefor."

These statements are supported by tables of export and import prices which show that the average export price of corn per bushel for the five years ending June 30, 1897, was 38.79 cents, while for the five years ending June 30, 1902, it was 41.06 cents per bushel. The corresponding advance in the export price of wheat was from 70.2 cents to 78.7 cents, while raw cotton fell in price only from 7.4 cents to 7.3 cents per pound. The exports of cotton, wheat, and corn for the fiscal year 1902, which were actually valued at \$409,275,000, would have brought at the prices of 1899 only \$319,232,000, or \$90,000,000 less than was actually received. On the other hand, the average import price of coffee dropped from 14.04 cents for the five years ending with 1897 to 6.89 cents for the five years ending with 1902. The corresponding decline in sugar was from 2.47 cents to 2.26 cents, and of tea from

14.10 cents to 12.79 cents. The imports of these three articles into the United States for 1902 were actually entered at the gold value of \$134,861,500, while at the prices of 1897 the same quantities would have been entered at \$191,078,600. The United States, therefore, obtained these three important tropical products at \$56,000,000 less than it would have obtained them at the prices of five years ago, while at the same time obtaining a considerably enhanced price for its own products.

It is not essential for the purpose of this discussion to consider whether the articles upon which the United States received so large a profit went largely to Mexico or to other countries. The essential point demonstrated is that a gold-standard country succeeded in obtaining, even for agricultural products, which have fallen so greatly in value in silver countries, higher prices in 1902 than the average of previous years, while the gold prices of the exports of countries using a silver currency have heavily and almost continuously fallen.

It must be freely admitted that the changes which have taken place in prices in the products of silver countries and in the products of the gold countries can not be assigned exclusively to the character of their monetary systems. Changes in the prices of an aggregate of articles are produced by an almost infinite variety of causes. In manufactured goods improvements in machinery and the economies resulting from the consolidation of industries should have brought about a relative decrease in cost in recent years. Competition and the state of credit are also vital factors in determining price, even where actual cost of production is unchanged. Other things being equal, however, the intensity of competition should be at least as powerful in the manufacturing countries, with their large excess of plant in many cases, as in the agricultural countries, according to the well-recognized principle of economics that manufactured goods are capable of rapid and almost indefinite multiplication, so long as a supply of raw materials remains available, while agricultural products are capable only of the slow multiplication resulting from natural causes or from the careful culture of years. If, therefore, the effect of competition under similar conditions has been to depress the gold value of the exports of Mexico in a much larger ratio than the same cause has depressed the gold value of the imports into the country or the exports from gold countries, then strong color is lent to the presumption that the monetary system has been influential in the matter.

The contraction or expansion of credits within the exporting country might contribute to contract values at one period and inflate them at another, and this has undoubtedly been a potent influence within the last few years in raising the gold prices of articles exported from the United States. If Mexico had been subject during this period to depression in trade, the comparison between prices in Mexico and in countries under different conditions would have only a limited value. The fact appears to be, however, that business conditions in Mexico have been favorable, that there has even been a special stimulus applied to certain lines of production by the fall in silver, and that prices in silver have considerably risen. If this justifies the conclusion that credit conditions during the last few years have been parallel in the gold and silver countries, or at least in Mexico and the United States, the conclusion may reasonably be drawn that if prices have fallen in an undue degree in Mexico, while in many cases they have risen and in others have not fallen materially in the United States,

then the argument is strengthened that this condition is related in some degree to the difference in monetary systems.

Conclusions upon so complex a problem as that here considered could not be drawn with certainty if the facts were not striking enough to point strongly in one direction. In economic problems, where they come into contact with practical life, there are always many elements of uncertainty which make it imprudent to be dogmatic in drawing conclusions. Some of these exterior influences, like the increased productive power of machinery and the changes in credit conditions in gold-standard countries, have already been referred to. It may be added that neither the exporters of Mexico nor those of any other one country are in a position to dictate prices in the markets of the world. There are many separate causes acting upon the import and export value of each separate article, and it is possible that the operation of these causes would counteract the effect of such a general cause as the tendency to undervalue Mexican products under a depreciating currency. In the case of sisal, the one article of importance where the gold price has risen, the war between Spain and the United States and the subsequent resistance to American authority in the Philippines were influential in cutting off the supply of hemp from Manila, and thus contributed for a time to reduce the supply and raise the price of the product which came to market. In the case of coffee, the great fall in price is probably due in part to conditions in other countries than Mexico, and it might have been impossible for Mexican exporters to have obtained a much higher price if the country had been upon the gold standard. It is proper to maintain, however, if Mexico should contribute a large part of the supply of any article, that her production and the price fixed upon it would have much influence upon the market price throughout the world.

It is proper also to observe that in the case of several of the principal articles exported from Mexico other countries where they are produced have also been upon a silver or paper standard, and have been subjected to the same influence as Mexico in the depreciation of their currency and in the low gold price for which their exports have been exchanged for the products of the gold-standard manufacturing countries. This fact would seem to strengthen the conclusion that the ability to reduce gold prices afforded by a depreciating standard, whether of silver or paper, tended everywhere to impoverish the economic forces of the countries having such a standard in their relations with the countries having a more stable standard.

Observation from a variety of points of view, therefore, of the problem of Mexican foreign trade seems to justify the conclusion that Mexico has in recent years given up a growing proportion of the products of her own labor and intellectual efficiency in return for foreign products. If this is due even in part to the monetary system, it is an evil of the most serious character, because it involves a progressive impoverishment of the economic resources of the country and the needless enrichment of those with whom Mexico trades. On the one hand, fewer foreign products in many cases are received in Mexico for the same amount of gold as in former years, representing a greatly increased expenditure of the resources of the Mexican people, while, on the other hand, Mexican products are being given up in increasing quantities for the same gold return at the cost of a burden steadily growing heavier upon the productive power of Mexican capital and labor.

## II.—REPORT ON CERTAIN ECONOMIC QUESTIONS IN THE ENGLISH AND DUTCH COLONIES IN THE ORIENT.

[Extracts from report by Prof. Jeremiah W. Jenks, special commissioner of the War Department, September, 1902.]

### CHAPTER II.—*Currency Systems.*

#### INDIA.

*Suspension of silver coinage.*—June 26, 1893, the government of India passed an act withdrawing the power of individuals to claim free coinage of silver, reserving to the government the right to coin rupees. On the same day notifications were issued arranging for the receipt at the mints (extended in 1897 also to the reserve treasuries) of gold coin or bullion in exchange for government rupees, and of sovereigns and half sovereigns at the treasuries in payment of sums due to the government, and also for the issue of currency notes in exchange for gold, the rate adopted in each case being 15 rupees to the sovereign, or 16 pence to the rupee.

The chief reason for this act of the government of India was the apparent necessity of checking in some way the falling rate of exchange of silver as compared with gold. During the preceding year (1893-94) the amount which the government had to remit to England in discharge of its gold obligations was £16,532,215, which, at the average rate of exchange in that year, viz, 1s. 2.985d., required the payment of Rx. 8,700,000 more than if the exchange had been at the rate of 1873-74.

If it had appeared that the rate of exchange would not fall still lower, the government would have preferred to meet its obligations by some increase in taxation, with certain restrictions and reductions of expenditures. Owing, however, to the fact that the International Monetary Conference at Brussels, for the consideration of measures for the increased use of silver for currency, had come to no conclusion, and that it seemed probable that the purchasing clauses of the Sherman law of the United States would be soon repealed, with the effect of lowering still more the value of silver, the government felt compelled to stop the free coinage of silver, and to take measures to prevent the further fall in exchange between India and England, and gradually to put the Indian currency on a gold basis.

It would be needless repetition of well-known arguments and opinions to give in detail the points brought out fully in the report of the Indian Currency Commission of 1893, commonly known as Lord Herschell's committee, and in that of Sir Henry Fowler's committee, which reported, in 1899, on the effects of the closing of the mint, with further recommendations for placing India on a gold standard.<sup>a</sup>

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<sup>a</sup> Report of the commission appointed to inquire into the Indian currency, commonly known as the Herschell report on the coinage of silver in India, with the accompanying correspondence and testimony, reprinted under resolution of Congress, Washington, Government Printing Office, 1893. Report of the committee appointed to inquire into the Indian currency, together with minutes of evidence, etc., London, Eyre and Spottiswood, 1898-99.

*Subsequent acts toward the adoption of the gold standard.*—A brief summary of the subsequent governmental measures, together with the results of these actions, as gathered from certain late reports and especially from interviews with English governmental officials and leading bankers and business men interested in commerce in India, may be of service.

It has long been customary for the government of India to effect its gold settlements in England, to a considerable extent, by the sale in London of council bills on the Indian treasury to those who had remittances to make to India. The rate at which these bills could be sold fixed substantially, of course, the rate of exchange for silver. In anticipation of the act suspending the free coinage of silver, the rate of exchange ran up from  $14\frac{2}{3}\frac{1}{2}$ d. on the 21st of June, 1893, to 16d.; the rate which the Government wished to establish, on the 27th, but it fell again immediately. The Secretary of State for India, having refused to sell bills at a lower rate than  $15\frac{8}{32}$ d., there were few sales between the 6th of July, 1893, and the 24th of January, 1894, while imports of all kinds into India in settlement of balances due increased very largely. After the repeal of the purchasing clauses of the Sherman Act, which tended to lessen still more the value of silver, the Secretary of State gave way and sold bills at whatever rate he could obtain. In May the rate had fallen to  $12\frac{2}{3}\frac{1}{2}$ d., and on the 23d of January, 1895, stood at the lowest point reached,  $12\frac{1}{3}\frac{1}{2}$ d.

During 1895, 1896, and 1897, with the demands of increasing business and no increase in coinage, the rates of exchange gradually rose, until at length, in 1897, the rate of 16d. was reached. From that time to the present the rate has remained at that point, with slight changes due entirely to commercial reasons.

In 1897, owing especially to objections coming from the government of India, proposals of the Wolcott commission from the United States, which involved the reopening of the Indian mints to silver, were rejected.

January 21, 1898, in pursuance of the policy to establish a gold standard for India, a second act was passed authorizing the issue of currency notes on the security of gold held by the Secretary of State in England.

On March 3 the government of India proposed further measures for hastening the effective establishment of a gold standard, and soon after Sir Henry Fowler's committee was appointed to consider them.

July 7, 1899, the committee reported unanimously in favor of a gold standard, and all but three recommended that the rate of 16 pence to the rupee be adopted.

July 25 the Secretary of State sent a dispatch directing that the mints be kept closed to the unrestricted coinage of silver and that steps be taken for making the sovereign a legal tender and a current coin, and for the coinage of gold, the rate of 16d. to the rupee being maintained.

September 15 an act was passed making sovereigns and half sovereigns legal tender, at 15 rupees to the sovereign.

During the years 1894 to 1899, inclusive, no rupees were coined for the government of India, although during the years 1897-98 and 1898-99 some rupees were coined for the native states in India. During the year 1899-1900 the scarcity of rupees began to be felt strongly, and 867,812 rupees were coined. In 1900 the demand for rupees became

stronger than ever before, so that on the 5th of March the government, after purchasing in India all the silver that it could obtain there for coinage, was obliged to telegraph to the Secretary of State in London to buy and send out more silver.

On the 29th of June an act was passed enabling currency notes to be issued against silver bullion, as well as against gold coin or bullion, when held by the Secretary of State, or when in transmission to India for coinage into rupees.

In the year 1900-1901, 11,424,477 rupees were coined, more than ever before in the same length of time. The profits on this coinage have been paid into the gold reserve fund.

While there is no strong demand for gold for circulation in India, the government seems to have succeeded in establishing a gold basis for the currency and in maintaining, without serious difficulty, a fixed rate of exchange.

*Economic effects of the change.*—Perhaps no act of government in late years has furnished occasion for keener criticism or for greater differences of opinion regarding its effects than this act of the Indian government in closing its mints to silver. The discussion has dwelt, on the one side, mainly on the success of the government in finally establishing and maintaining its rate of 1 shilling and 4 pence for the value of the rupee. On the other hand, it has been claimed that the checked decrease and later the increase in the value of the rupee have brought great hardships upon the people of India. It is clear that any satisfactory discussion of the change in the system must consider the effects upon several of the leading classes in the community, and that some effort must be made to determine the relative importance of these classes. It is certainly possible that the act may have been a benefit to some and an injury to others. The social effects of this change in the distribution of wealth must be clearly seen before one can give any opinion upon the wisdom of the government's action. The classes which perhaps need to be kept most clearly in mind are, first, the bankers; second, the exporting and importing merchants; third, the producers of goods of various classes; fourth, the consumers of goods of various kinds; and, fifth, government officials and others working on fixed salaries.

*Bankers.*—According to the opinions of both business men and bankers in India, the fixing of the rate of exchange has lessened the opportunity of the bankers for gain from their exchange business. Owing to the fact that their attention was given especially to the subject, they had, generally speaking, the opportunity of securing an advantage from the fluctuating rate of exchange, although at times they lost. The business of the banker is now much less exciting, possibly less interesting, and, so far as the exchange business goes, probably somewhat less profitable, than it was before the rate was fixed.

It seems to be generally conceded, however, and was emphatically asserted by several business men, that as the gains of the bankers from exchange business have lessened since the rate of exchange has been fixed, they have been bringing more money into India for regular banking business, suitable loans, etc. Business men think that in consequence the banks are doing more for the development of the real interests of the country than they did when the exchange business was more profitable and they kept a large part of their capital at home.

*Exporters.*—The exporters also have lost part of the profit which came from the falling rate of exchange. But, on the other hand, according to the testimony of some, this loss is not so great as it appears to be. While it is true that when goods are sold at gold prices a falling rate of exchange gives for the same price in sterling a larger number of rupees in India than was the case under the higher rate, there is felt, as a counteracting force, the hesitancy of the London buyers in the face of a falling rate of exchange. If they think that exchange is going to continue to fall, they are likely to postpone buying as long as possible and to make small purchases from time to time in order to get for themselves the benefit of the falling rate. Some of the business men of Calcutta stated that they had felt in their own business this hesitancy on the part of London buyers to a very great extent, and they were of the opinion that this influence was enough, in the long run, to offset fully the advantages gained from the falling rate. When the rate is fixed, people buy in much larger quantities and much more readily.

*Producers.*—The tea planters, however, and the cotton manufacturers pretty generally feel that they have lost seriously by the increased rate of exchange. A large number of business men not connected with the tea industry, and one or two who are prominently connected with it—for example, Mr. Mitchell, of Colombo—are of the opinion that the gain to the tea planters from the falling rate of exchange led to very coarse picking and also to a too rapid extension of the area of tea planting. The consequence has been an overproduction, which has led to the price falling so low that there has been really a crisis in the tea industry. Without the artificial value given to the rupee by the closing of the mints the falling prices would not have been felt so severely or so soon, but in the long run, they think, the overproduction might well have been worse. The hard times of the last two or three years, thus brought about by this overproduction, which came, in part, from the falling rate of exchange, has now led to much more careful plucking, with the consequent improvement in the quality, and has perhaps prevented the tea industry from what might have been almost a complete collapse, had the speculative overproduction continued much longer. Mr. Mitchell was of the opinion that if this overproduction could have been avoided it would have been much better for the country to remain on the silver basis, but, considering that element, which is a real one, and which, in his judgment, was largely brought about by the fall in exchange, it is perhaps as well for the tea industry, in the long run, that this speculative stimulus was withdrawn.

*Agricultural classes.*—The bulk of the population in India is agricultural, and the matter of prime importance for consideration is the way in which the fixing of the rate of exchange has affected the agricultural classes. These need to be considered in two separate groups: First, the agricultural landlords who have large numbers of laborers working under them; and, second, the small cultivators who cultivate and sell their own produce. These two groups have also to be divided into (1) producers of grain for export, especially wheat, and (2) producers of produce consumed in the country itself.

So far as the large producer is concerned, who employs labor, there can be no doubt that the check in the fall of exchange, if he has been a producer of export goods, has been a source of loss. While exchange was falling he received very generally an increasing number

of rupees for produce, whereas he paid to his laborers ordinarily, for a time at least, the same number of rupees as before, though there were some variations. (See Appendixes III and IV.)

There can be no doubt at all that the rate of exchange did affect continually, and almost instantaneously, the prices of many export products. These products are bought throughout India, offers being sent to subagents by telegraph from purchasing centers, and fluctuations in the rate of exchange were taken account of at once in making these offers. On the other hand, goods produced for consumption inland do not have their value affected immediately, if at all, by the change in the rate of exchange, inasmuch as they are sold and paid for with reference to silver alone. The fluctuations in their prices are mainly due, of course, to local causes.

The same principles hold true with reference to the small agriculturist, who produces with practically no hired labor and who sells his own produce. So far as he produced wheat or other goods whose prices for export were fixed by the London market, and so far as he was on lines of railway or near enough to lines of communication so that his goods were really affected by the world's market, he shared in the gain in rupee prices which came from the falling rate of exchange. The purchasing middleman probably took part of this profit, but the competition for these export products was sharp enough, in most sections of the country, so that the producer received part of the benefit. So far as the small agriculturist was a producer of millet or sesame, or other material not exported, the shifting rate of exchange affected him as a producer comparatively little, if at all.

*The consumer.*—So far the question has been considered from the point of view only of production. The matter assumes a somewhat different aspect when considered from the standpoint of consumption. A large proportion of the landlords who produce wheat or other goods for export employ laborers whose food for consumption is largely millet, jawar, gram, or some other grain whose price is not so affected. In consequence the employer has gained by the falling rate of exchange; but it can not be said that the laborer has lost a corresponding amount, even though his wages in rupees have remained the same. So far as he has consumed export grain he, of course, has lost, unless his wages have advanced in proportion to the price of the grain. So far as the small producer consumes export grain which he himself produces, he gains in rupees from what he sells, and the loss which comes from his consuming dearer goods, while in one sense a real one, is probably not much appreciated by him. If he both produces and consumes goods not affected by the world's markets, he is, so far, neither a gainer nor a loser by the shifting rate of exchange, even though the prices may vary under local conditions.

So far as he is a consumer of imported goods or goods regularly exported, he naturally is the loser by the falling rate of exchange, inasmuch as it will take more rupees to pay for those goods than it would before.

In the case of the great mass of the poor cultivators, their consumption is made up only to a very small extent of imported goods. They, in consequence, may gain considerably more than they would lose by the falling rate of exchange. On the other hand, Europeans, whose consumption is largely made up of imported goods but whose income may be determined by entirely different considerations—as, for example,

salaried officials—must stand a countervailing loss. This fact has doubtless had much to do with the agitation in favor of checking the fall.

*Government officials.*—There can be little doubt that a prominent influence leading to the closing of the mints to the free coinage of silver was the fact that the Government officials and others on fixed salaries suffered very greatly from the falling value of the rupee. They were receiving a certain fixed number of rupees per month. Very many of them remitted a large proportion of their salaries to England for the support of their families, the education of their children, the payment of life insurance premiums, and for investment for their own needs in the future. As the value of silver fell, they were receiving continually less and less in sterling. Moreover, so far as they were consuming export goods, they found that the prices of export goods went up, to the decided advantage, in some cases, of the local producers, but the cost of living for the officials was proportionately increased, and they suffered accordingly. So far as they were consumers of imported goods, they found the tendency was for the value of these goods to increase in terms of silver, so that in all directions they were the losers. The fact that very many of them had a direct personal interest in checking the fall of the value of the rupee in addition to their official interest in lessening the burden on the Indian treasury naturally led them to be more active in bringing their influence to bear toward the stoppage of the coinage of silver.

The effects of the increase in the value of the rupee has, of course, contrarywise, been all in their favor. Not merely have their remittances to England increased in value, but likewise the relative fall in the price of goods, both of those exported from India and those imported, has been in their favor. Probably no other class in the community can be said to have profited so directly and to have had so few counteracting evil effects to offset the good effects that have come to them. The question of compensation in the way of increase of salaries, etc., lies outside our field of discussion.

*Scarcity of currency.*—An evil which all classes in the community felt—more particularly, perhaps, buyers of produce, and merchants—came from the scarcity of rupees, brought about by the stoppage of the coinage and the deliberate checking of the supply of rupees in order to raise their value. This dearth of rupees at seasons of the year when crops were to be moved has beyond doubt proved a noteworthy source of embarrassment to business for some years. Each season money has become so scarce that the rate of interest, instead of remaining normal at some 4 or 5 per cent, rises to 8 or 9 per cent, or even above that. This evil has been in part checked during the last year or two by the increase in the coinage permitted by the Government. But the evil is one that is still felt at these special times and one not so likely to come with free coinage. Some additional measures should be taken to prevent this evil.

*The tax burden.*—From one point of view, it would seem as if practically every cultivator, large or small, as well as all other taxpayers, must have lost by the increasing value of the rupee; and this loss was doubtless contemplated by the government of India when it proposed to fix the rate of exchange. The taxes are regularly levied in rupees and must be paid in rupees. If, therefore, the value of the rupee increases as compared with gold, and especially as compared with products, it is certain, other things equal, to become more difficult

to get the requisite number of rupees to pay the taxes. In order for the Indian government to get money enough to meet its obligations in gold, it was necessary either to stop the fall in the value of the rupee, so that the same number of rupees would pay sterling obligations as before, or to raise the taxes, so as to get more rupees. It seemed, on the whole, as a matter of practical politics, easier to adopt the first method. As a matter of fact, for some years after the stoppage of the free coinage of silver in 1893 the rupee continued to fall, and then it was gradually, by scarcity, forced back up to the value of 1 shilling and 4 pence contemplated by the Indian government. This forcing up of the value of the rupee, other things equal, was beyond any doubt a kind of indirect tax upon the people of India, and primarily upon the agricultural classes, as they are the ones who pay the great bulk of the taxes. This fact is one that is very generally recognized, even by those who favor the government's policy as a matter of political necessity. Very many of the ablest business men and some of the high government officials do not hesitate to say that the act of the Indian government in stopping coinage to raise the value of the rupee was practically one of indirect taxation. Some few of those who keep in mind the fact that the government's intention was not to increase the value of the rupee, but to prevent its further fall, say that, instead of speaking of the act as an additional indirect tax levied upon the cultivator, it would be more accurate to say that the act was one which prevented the cultivator from escaping, through the falling rate of exchange, the burden of the tax as it was first levied, which it was proper and just for him to pay.

To sum the matter up from this point of view, we may, perhaps, say that, although the salaried classes and some others gained, and although the government of India was practically forced by political considerations to adopt the policy which would check the fall in the rate of exchange, and although from that point of view the policy has been entirely successful and justified, it did deprive large classes in the community from keeping profits which they were temporarily getting from the falling rate of exchange, and so far as it increased the value of the rupee, as it did during a period of two or three years, it placed an added burden upon great numbers of the people. Those who have suffered most are those who were engaged in the production of goods intended for export. But indirectly it probably placed something of a burden even upon those whose goods were not produced for export, inasmuch as, other things equal, the tendency would be for them to secure the rupee required for taxation only with a greater expenditure of energy than would otherwise have been the case.

Everyone of the class under discussion must get his income either from the exchange of some products that he raises or from his own personal exertions. While wages, as we have already seen, are, speaking generally, very stable in India, especially outside the great cities, the fall in the rupee value of products intended for export would naturally bring considerable pressure to bear toward the lowering of wages. We may be certain that, even if money wages were not directly lowered, somewhat greater care would be taken to restrict the laborer in the use of land or in securing other perquisites, or at any rate there would be no increase in his wages. Appendixes III and IV show that either from the fall in exchange or from some other

reason there was a rise in average wages in many places about the middle of the nineties. While in certain cases, with the late increase in the rate of exchange, there has been a fall in wages, in other cases the other influences have more than counterbalanced, and there has been an actual rise.

It is also probably true, in the long run, that when people are dealing with the poorer classes in a community the dealer has something of an advantage. In consequence, if the wholesale prices of goods have a tendency to rise, he is likely to be able to increase his prices on most articles. Of course, if the articles are such as matches or well-known brands of goods put up in special packages, which sell for a round sum, like 1 anna or 5 annas, it may not be possible for him to change his prices. Ordinarily speaking, however, the dealer does not meet with loss from an increase in the wholesale price of the goods which he is selling, excepting as the price becomes high enough to check the amount consumed. On the other hand, when wholesale prices are falling he is not likely to lower his price to the consumer so promptly when his price as purchaser falls. In the course of time, naturally, competition among dealers will bring about a fall in the selling price, but for the time being the dealer gets the advantage. There can be little doubt that as regards the prices of goods imported into India under the rising rate of exchange there has been this experience; and the native, so far as he is a consumer of imported goods, has not felt the benefit of the rising rate of exchange, as has his dealer. The probability is that in very many cases he has not felt the benefit at all. It is probably not at all an exaggeration, therefore, to say that the benefits of the increase in the rates of exchange, so far as they exist, have been rather specialized, and that they, as yet, have not come to the benefit of the masses so much as they may be expected to do after considerable more time has passed.

*Counteracting influences.*—These conclusions seem to be absolutely certain so long as we keep strictly in mind the condition that other things are to remain equal, and they are generally conceded even by those most in favor of the government's policy. Fortunately as it may seem for the Indian government, and interesting as it is from the point of view of the investigator, however, this increase of burden, or, to put it from the other side, this lessening of the prospective profit from the increase in the exchange value of silver, has, in many cases, not been felt at all, owing to the fact that other things have not remained the same. A somewhat careful statistical study of prices (see Appendixes I and II) seems to show that, on the whole, prices of products consumed in India have ruled upward during the last two or three years, and higher than during part of the period when the rate of exchange was so very low, although in 1897 prices were unusually high. Each year should be considered by itself. A comparison only of the five-year averages, as in the tables, would be unfair, as the lowest exchanges ran from 1893 to 1897, thus overlapping two periods. The tables do not show with possibly sufficient clearness that other factors have had more influence on prices of grain for local consumption, and at times even on wheat, than that of exchange, but such is the fact. The conditions are to be accounted for in part by the shorter crops, in part by the increased demand from elsewhere. In certain sections of the country, as, for example, in Burma, where so large quantities

of rice have been produced, the very great prosperity of the last two or three years seems to have been brought about in part by the famine in other parts of India, which tended to strengthen the demand for Burmese rice, and thus to keep up its price. Although, therefore, the tendency of the increasing rate of exchange of the last few years would have been to place a burden upon the producer of Burmese rice, other influences have apparently more than offset this tendency, so that the Burmese rice producer has perhaps never been so well off as he is at present. The same argument holds with reference to the producers of some other classes of products, notably those consumed in India itself.

It is also to be kept in mind that a large proportion of the Indian cultivators are entirely unlettered and utterly ignorant of all questions connected with public finance. These men have, therefore, borne the burden, so far as it has been an added burden, without any knowledge of the reasons for any change in their conditions. Their taxes in rupees have nominally remained the same, and if there has been any added difficulty in their acquiring the rupees to pay the taxes, they have not been able to trace the difficulty to its cause. In consequence, there has been little or no dissatisfaction with the government on their part.

*Hoards and ornaments.*—In one other particular there has been from the increased value of the rupee a serious loss to very many of the poorer classes in the community, a loss which it seems impossible for them to recover in any way. This is the lessened value of their silver ornaments and of their hoarded silver as compared with the rupee. Before the fixing of the rate of exchange rupees could be melted into ornaments and ornaments reconverted into rupees with practically no loss. Those persons who melted down rupees into ornaments while the value of silver was low find that they can not now secure anything like an equivalent number of rupees for their ornaments should they desire to sell them. A loss of perhaps one-third of their value would perhaps be felt were they needed to pay taxes.

There seems also no way of their recovering this loss. It has sometimes been urged that while ornaments are now worth less in rupees than before, it is correspondingly easy for those who now wish to buy ornaments to secure them. While this is true, this does not lessen the loss of those who were possessors of ornaments before the change was made. People buying ornaments now will be able to reconvert them into rupees with no loss, provided exchange remains fixed, but those who bought with a lower value of the rupee have met with a loss which seems final. It is their sacrifice to aid the government to meet its burdens and to prevent the officials from further loss.

It is sometimes said that there is no complaint on the part of the people in this particular, and that is, in most cases, probably true. Probably a large proportion of them have not found out the loss which, in fact, they have met with, and those who have felt the loss have probably never been able to understand the reason—to them inscrutable. They have probably accepted it, as is their wont, without complaint, as part of their hard fate.

*Mr. Lindsay's plan for establishing in India a gold standard without a gold currency.*—Inasmuch as it seemed at first difficult to provide for India a sufficient gold reserve to maintain a fixed rate of exchange by

redeeming silver with gold, the following plan, which is very suggestive, was proposed by Mr. A. M. Lindsay, of the Bank of Bengal, Calcutta:

“Five to ten millions sterling should be raised in London by a long-term loan (say fifteen years' currency), and should be deposited in the Indian office or the Bank of England. The fund might be styled the gold-standard reserve, and the office dealing with it might be called the London gold-standard office.

“2. It should be announced that the London gold-standard office will be prepared to sell to all applicants rupee drafts for sums of Rs.15,000 and upward in exchange for sterling money at the rate of 1s. 4 $\frac{1}{4}$ d. per rupee. These drafts should be drawn on two offices, to be opened either in the Indian mints or in the Calcutta and Bombay presidency paper currency offices. These offices might be styled the Indian gold-standard offices. The drafts should be made payable on demand whenever there are rupees available in the Indian gold-standard offices. If not, and there are no rupees available in the Indian gold-standard office at the time, the drafts should be drawn at a currency affording time for coinage in India of silver bullion purchased in London with the sterling money. This currency might be shortened were the paper currency department authorized, as formerly, to issue notes against the silver bullion on its arrival in India.

“3. It should be announced that the Indian gold-standard offices will be prepared to sell to all applicants sterling drafts on the London standard office, payable on demand, in sums of £1,000 and upward, in exchange for rupees at the rate of 1s. 3 $\frac{1}{2}$ d. per rupee.

“4. All rupees received by the Indian gold-standard offices should be held in these offices to meet the rupee drafts drawn by the London gold-standard office.

“5. All gold received under notifications Nos. 2662–2664 of June, 1893,<sup>a</sup> should be made over to the Indian gold-standard offices, on their requisition, in exchange for rupees at the rate of 1s. 4d., and should be sent by them to the London gold-standard office.

“6. If the gold-standard reserve should decrease at any time to ‘apprehension point,’ i. e., show a likelihood of becoming exhausted, it would indicate that the rupee currency was seriously redundant, or, in other words, that there were too many rupees in circulation, and it would be the obvious duty of Government to curtail the currency. They should take the step contemplated by the Dutch Government in 1884, and melt a portion of the rupees held in the Indian gold-standard offices, dispatching the bullion to London for sale there for sterling money, which should go to strengthen the London gold-standard reserve. The loss on the operation would not necessarily be permanent, as it could be recouped afterwards by buying silver and coining it.

“Even these sales of silver might prove to be insufficient to preserve the gold-standard reserve from extinction, and in such an event it would be necessary to strengthen the fund by borrowing further on a temporary footing.

“7. The scheme should be started shortly before or during the early part of the busy export season, say, in January or February.

“8. Sales of council bills might be continued on their present footing, although it would be desirable to insure more competition for the bills.”

<sup>a</sup> Providing for furnishing 15 rupees in exchange for a sovereign.

This plan is substantially the one that was followed for half a century with success in fixing the sterling value of Scotch currency in the absence of gold coins. The Scotch banks kept reserves in London, against which they drew when necessary.

It resembles somewhat also the practice of Holland, where gold is given freely for export, but is granted very sparingly for local-payment purposes. It is also similar to the Java system.

It is possible that an adaptation of this plan, permitting the Philippine treasury to sell drafts upon Washington, would enable the gold standard to be maintained more easily without necessitating the holding of any very large gold reserve in Manila, provided it should be thought best to place the currency of the Philippine Islands upon a gold basis.

#### BURMA.

Burma has, of course, the same monetary system as that employed in the rest of India. The discussions that have already been given regarding the general situation in India apply in the main to Burma. But some slight distinctions ought to be noticed.

Burma has, of late years, not suffered from any failure of crops or from any other economic disaster, so that its inhabitants are much more prosperous, as a rule, than are those in most other parts of India. In fact, the failure of the rice crop in other parts of India has, in many instances, led to increased prosperity in Burma, inasmuch as it has created a demand for Burmese rice at very satisfactory prices. Burma is largely a rice-producing country, and this prosperity among rice producers has practically extended throughout the whole country.

In consequence of this the ill effects mentioned from the change of the currency in India have not been practically perceivable in Burma. It is doubtless true that the evil tendencies have been more than offset by the counteracting forces just mentioned. One hears no complaint whatever of the fall in the value of silver hoards or of increased difficulties in meeting tax obligations or any other complaints which are expressed with much vigor in some other parts of India.

The only complaint in connection with the financial obligations of the government or of citizens that one hears is that Burma, on account of its prosperity, is compelled by the Indian government to pay far more than what its citizens consider its share of the burdens of India in providing for military and other expenses. They would like to have Burma made a separate colony, with an independent budget, in order that it might escape many of these burdens which are considered unjust.

#### CEYLON.

*The currency system.*—The currency system of Ceylon is the same as that of India, with the exception of the minor coins. Instead of the anna, pice, and pie, which are the minor coins of India proper, Ceylon has the rupee divided into 100 cents, and there are minor coins representing these cents. The rupee is the same as in India, and the amount used in Ceylon is determined by business needs, rupees being imported from India whenever necessary. The government of Ceylon issues paper money redeemable in rupees.

The action of the Indian government, therefore, in stopping the free coinage of rupees and in taking other measures to fix the rate of

exchange between the rupee and the sovereign affects Ceylon much as it does India.

*Report of special commission.*—In 1894, the year following the closing of the India mints, the government of Ceylon appointed a special commission to report upon, first, the probable effect of the action of the Indian government in putting an artificial value on the rupee, and, second, upon measures which it might be expedient to take to protect the interests of Ceylon under the altered nature of the currency. The commission was composed of government officials and leading business men; testimony was taken from persons of various classes in the community, and information was gathered from the Straits Settlements and elsewhere regarding the effects of the action of the Indian government upon the prices of certain goods imported into Ceylon and upon wages.

*Effects on exports.*—Two or three of the commission's conclusions are of importance. First, it expressed the positive opinion that the fall in the value of silver, before the action of the Indian government had resulted in increasing the value of the rupee, had decidedly increased the exports of the colony and had brought about "a general progressive increase of prosperity among the producing classes and those dependent upon them."

*Effects on labor.*—In this connection it was stated also that "the rate of wages paid to unskilled Tamil labor on the estates has not increased during the past eighteen years." While the commission thought that the sterling value of some of the estates had probably fallen, it was still of the opinion that the European and native owners of estates whose expenditure was largely on unskilled labor had benefited by the low exchange which had ruled of late years.

The investigation seemed to show also that there had been an increase in the number of laborers for hire and in the demand for labor. This had resulted in certain provinces in a slight increase in the rate of wages, contrary to results found in other parts.

In certain cases it seemed probable that the falling rate of exchange would have been to the disadvantage of the laborers so far as they were consumers of imported goods, since the silver prices of such goods, other things equal, would have risen. In this connection, however, it was shown that, in spite of this influence, the silver value of imported cloths, which were used by the laborers, had fallen, owing, of course, to improved methods of production in Europe. But it was likewise shown that the cloth used was inferior in quality to that which had been earlier used. The total result would seem to be that the fall in the value of silver had been, in fact, to the real disadvantage of the laborers, but that their changed conditions had so disguised this effect that the laborers themselves had not perceived it.

So far as the consumption of other goods, for example, rice, is concerned, the laborers in most cases had not suffered because the planters had found it advisable to furnish rice to the laborers at a fixed valuation, even when they themselves had to pay more for it.

The commission recognized, of course, the decided loss that had come to the civil servants from the fall in silver, but thought that it was the duty of the government to make due compensation for that.

*Effects on government.*—As regards the government itself, the commission recognized that it had been placed at a disadvantage in meeting its gold obligations; but it believed also that the increased prosperity

of the colony under the falling exchange had been probably enough to offset this disadvantage. It thought that the direct saving from a change to the gold standard, should the change be made, might not be sufficient to compensate for the probable shrinkage in the revenue, which had become very large owing to the colony's increased prosperity.

The commission was also clearly of the opinion that the fall in exchange had "not prevented the introduction of necessary English capital, and it is stated that there is more capital offered for investment on reasonable terms than has ever been the case before." Their general conclusion was that a bullion silver currency with a falling rate of exchange had had advantages which had exceeded the disadvantages.

*Recommendation.*—In spite of this fact, however, it was found advisable to recommend that the government of Ceylon should not sever its connection with the currency of India. The commission thought that the risks inseparable from such a change would be as great, if not greater, than those which were to be expected from inaction, which would lead to the fixing of the rate of exchange and the placing of the country, in this sense, upon a gold standard.

The opinions of business men and of government officials in Ceylon at the present day seem, on the whole, to agree with those expressed by this commission, and one can not say that there is at the present time any indication of a desire to revert to the silver standard.

#### NETHERLANDS INDIA.

*Currency system.*—The currency of Netherlands India consists nominally of gold and silver coins, together with minor coins of silver and copper and notes of the Bank of Java. Although the standard is a gold standard, and although the exchange has been kept substantially fixed throughout the entire period of the relative fall in the price of silver, gold is practically not at all in circulation in Netherlands India. A gold coin, even an English sovereign, is rarely seen; the bank notes of the Java Bank and silver, which is legal tender for all amounts, with a few minor copper coins, constitute the currency. The Java Bank holds a large reserve in gold, but it is not paid out on demand.

Some years ago—in the late eighties—there was a vigorous agitation in favor of a change from the gold to the silver standard, it being felt by many that the country needed to be brought into line with the other oriental countries, practically all of which at that time were on a silver basis. Many being unwilling, however, to divorce the currency system of the Indies from that of the mother country, no change in the system was made.

*Nature of population and of business.*—The population of Java and Madura, the two islands most thickly settled and the farthest advanced in business methods and in civilization of Netherlands India, consisted, December 31, 1900, of 28,745,698 people. Of these, by far the largest number (28,384,731) are natives of the islands, although they may be divided among themselves into three groups—the Sundanese, mostly in the west part of Java; the Javanese proper, in central Java; and the Madurese, in Madura. The number of Chinese in Java and Madura is very considerable. They are, practically all of them, either skilled workmen—carpenters, shoemakers, saddlers, machinists, etc.—or else merchants. Very large numbers of them come to Java with

almost no means, begin their life as traders by peddling goods about the streets, and later become merchants, some of them of great wealth and influence.

Besides the Chinese traders, there is a somewhat large class of Arabs (18,051) who are also engaged in trade, and to whom the intricacies of exchange are no mystery.

The very large majority, therefore, of the population have been brought up under the present currency system; they know the present coins, and they have no knowledge of any other system of coins of which the bullion value determines the face value.

So far as the Chinese population is concerned, the situation in Java is materially different from that in the Federated Malay States, or in Deli, the east coast of Sumatra. In the two last-mentioned countries the greater part of the Chinese population is merely transitory, the Chinamen expecting to return to China after a few years' labor. The Chinamen, moreover, nearly all of them, are of the ignorant coolie class. They have become more or less accustomed to the large silver dollar whose value is in strict accordance with the weight and which can always be disposed of without serious difficulty in China. These coolies also know practically nothing of the principles of exchange, and in consequence they prefer the large dollar to, relatively speaking, the small amount of silver which would be required to make in the Dutch currency an amount of equal value. Considering the preferences of these Chinese coolies for the large silver dollar, it is doubtless true that they can be persuaded to work for rates that cost their European employers much less than would be possible, for a time at any rate, if they were to be paid in the Dutch guilder.

Java has, therefore, a gold standard so far as the rates of exchange are concerned; its silver guilder is maintained at a fixed rate of exchange with gold, and its business men are free from the speculative influences and other disadvantages which accompany a violently fluctuating rate of exchange. Owing to the long time that the colony has been under the present currency, prices and wages have gradually adapted themselves to the rate of exchange as compared with that in other countries, so that, while in all probability there is some little loss often to the exporters, as compared with the situation in the silver-standard countries since silver has been so rapidly falling, that loss is so slight that business men do not feel themselves seriously hampered. Though some English trading houses in Singapore feel that their silver standard has given them a decided advantage over the Dutch traders in Java, especially in the copra trade, the Dutch traders do not seem to have felt any disadvantage from their gold standard. While it is possible that the Dutch have made less money from exchanges than their English competitors in the Straits Settlements, and earlier in Ceylon and India, there seems at present to be no more signs of commercial depression among them. They have also made much profit in the long run, possibly through devoting attention more exclusively to the methods of production and sale, without having their attention distracted by the speculative demands of a fluctuating exchange.

*Counterfeiting.*—One disadvantage which has come from the overvaluation of the silver coin in Java has been the temptation to counterfeiting by making the counterfeit coin of full weight and of the proper quality of silver. There can be no doubt that there are large numbers of such counterfeit coins in circulation. On the other hand, the esti-

mate regarding such counterfeiting is, in very many cases, too high. According to the statement of Mr. Reÿsenbach, president of the Java Bank, the number of counterfeit coins taken up by that bank during the last seven years has been only 10,540 2½-guilder pieces, 2,953 guilders, and 17 half guilder pieces. Of course the greater number of counterfeits never reach the bank.

*East Sumatra conditions.*—On the east coast of Sumatra, as has been intimated, the situation is decidedly different. This coast is much more closely associated physically with the Straits Settlements and the Federated Malay States than with Java. In consequence, before the Dutch had made many settlements on this coast, the British dollar (as, indeed, had been the case in Borneo and Celebes also) had become a more or less current coin among the natives and traders.

When the tobacco plantations began to be developed, and the need was felt of bringing Chinamen in large numbers into the colony, it was perhaps natural that many of the Chinamen should come through Singapore and Penang, where they had become accustomed to the use of the Straits dollar, or that they should be persons more or less closely associated with those who were familiar with the dollar in either these states or in China. The Chinamen, therefore, who went to work on the tobacco plantations, and who represented by far the most productive and profitable laborers in Sumatra, preferred the silver dollar, and would work to better advantage if they were paid in that coin.

The Dutch Government, on the other hand, when its resident became settled in Medan, the capital of East Sumatra, and it established more completely its governmental control, naturally continued the legal currency of Netherlands India. The consequence is that one finds two systems of currency circulating side by side in this part of Sumatra. The officials' salaries and the taxes due to the government are payable in Dutch guilders. Likewise in some of the shops that are patronized most by the Europeans, and especially by officials, whose pay comes in guilders, the Dutch currency is used. On the other hand, the plantations, for the payment of their coolies, use the British dollar, and, in fact, that has become the current coin of the great masses of the people. So strong is the demand for this coin that during the year 1901 not less than 5,103,132.16 florins' worth were imported, as compared with 3,607,264.38 florins' worth of all other coins, including gold. Of this large amount, 1,728,342.75 florins entered the one port of Belawan, in East Sumatra, where it doubtless went at once into circulation, as was the case with much of that entered at other ports. Of course a goodly number of these dollars are hoarded by the natives in the somewhat more remote districts, and large quantities of them are doubtless carried by poorer Chinamen back to China.

In order to favor the Chinamen returning to China it is customary for the proprietors of large estates to give Chinamen bills of exchange payable in China without charging them commissions. The Planters' Association, which represents 74 plantations, has itself alone given, within the last twelve years, \$1,912,945.88 of these bills. The habit is growing among the Chinamen of taking pay in this form instead of taking silver dollars, but doubtless a great many silver dollars are in this way, through returning Chinamen, still exported.

*Netherlands Trading Company's notes.*—So strong has the demand for a dollar currency become, in fact, that the Netherlands Trading Company, one of the strongest banking concerns in the East, has

found it profitable to issue a kind of bank note in the form of an order from the manager on the cashier to pay a certain amount to the bearer. The demand for these so-called notes instead of the more cumbersome silver is so great indeed that the bank has found it profitable to issue them well up into the hundreds of thousands of dollars' worth (in Java one hears that notes of the value of 2,000,000 guilders are out), and one finds them in circulation not merely in Sumatra, but likewise in Penang and elsewhere. It must be kept in mind, of course, that neither these notes nor the British dollars are legal tender or are even legally recognized money in Sumatra. They are, in fact, merely customary money which the people prefer, and which the government, under the circumstances, finds it wise not to interfere with. So far as one is able to gather opinions from the business men and from the bankers concerning the importation of silver dollars and the importation of Dutch guilders, the silver currency in a good part of Sumatra is, on the whole, more in demand than the gold standard currency, and the silver currency is, moreover, that which comes naturally into the country as the result of the normal demand, whereas the Dutch currency is practically forced there by governmental agency. It seems a peculiar and most interesting example of two currencies in the same country—does it illustrate Gresham's law? It is the opinion not merely of many of the planters themselves, but also of bankers and other business men—in fact, of practically all whom one has an opportunity to consult on such matters—that if a change were made, even with considerable warning, from the silver to the gold standard, especially with silver coins at the high Dutch rates, the result would be the inevitable failure of many business concerns, as well as of many large planting companies. It is recognized that the conditions are exceptional and that the chief advantage of the silver currency comes from the fact that the Chinese coolie is determined to have his full weight of silver, and that he is too ignorant to rely on any standard which is merely supported by government fiat, or, perhaps one should say, by wise governmental regulation. To the planter who receives the pay for his products in gold, and who for so many years has been able to pay his laborers in silver and to pay likewise a large part of the other expenses of his establishment in silver, the silver standard seems especially good.

*Beneficial effects of silver currency.*—There is probably no reason to doubt that under the somewhat peculiar circumstances of this colony of the east coast the silver currency is, for the present at any rate, decidedly beneficial, not merely to the planters, but also to the productive and mercantile classes in general, while it would probably be difficult to show that the Chinaman, the laborer, is seriously, if at all, injured by his use of this coin, although it is he chiefly who bears the burden. Even, however, if it could be shown that the silver standard was maintained at his expense, it is still an open question as to whether the country should endeavor to enlighten the Chinaman, with the certainty that it would be deprived of a considerable part of his services if it were to undertake the task of enlightenment. It should be borne in mind that he is not a citizen; he is an exploiter in a small way who comes to take back to China with him most of his earnings.

The conditions in Java have already been set out in probably sufficient detail. It must be noted that the remarks which apply to Sumatra would not of necessity apply to Java, and, in fact, the conditions in Java are so different that they can not be made to apply

there. So far as one can judge from testimony from several sources, as well as from the monetary principles generally accepted, Java itself is not hampered by the gold standard, as it would be, provided its situation were similar to that of Sumatra.

#### THE STRAITS SETTLEMENTS AND THE FEDERATED MALAY STATES.

*Currency system.*—After what has been said regarding the monetary situation in Sumatra, it becomes much easier to understand the situation in the Straits Settlements and the Federated Malay States. So far as the Straits Settlements themselves are concerned, especially Singapore and Penang, the circumstances are somewhat peculiar. Both of these places, and especially Singapore, are great entrepôts for the purchase and sale and the reshipment of goods from the East to the West and the West to the East. They have large dealings with both gold-standard and silver-standard countries, and it is not possible under any standard for many of the important firms to avoid the speculative effects of a fluctuating rate of exchange. Even if their own gold and silver currency were maintained at a fixed par of exchange, their dealings with countries on a silver basis would make the item of the bullion value of silver an important one in very many of their transactions. So far, however, as the European traders are concerned, whose business is largely with Europeans, it is probable that the fixed rate of exchange would be, on the whole, satisfactory to a large majority of them, provided the rate of exchange were kept low.

*Movement in favor of gold standard.*—In 1897 a committee of the Chamber of Commerce of Singapore was appointed to prepare a report regarding the change of standard. A majority of the committee reported in favor of the adoption of a gold standard, with the English sovereign as a basis, with a Straits silver dollar equivalent to two shillings in value, and in favor of some means of maintaining this fixed rate of exchange. The report was discussed at some length in the chamber, and was finally adopted by a small majority. The opposition came in part from the bankers, who have probably gained from the fluctuations in exchange, and in part from others who felt that a change to the gold standard would deprive producers and exporters of the bounty which they had been receiving through the falling rate of exchange. The Chinese merchants favor the fluctuating silver currency.

At the present time the feeling on the part of many of those who still favor a change to the gold standard is that the most favorable time has gone by. In 1897 a dollar of 2 shillings in value would have been nearly at the bullion rate of their present dollar. The government officials at that time were also suffering from the falling rate of exchange, as has been explained regarding the officials in India. So strong a minority, however, against the report, even at that time, made the government feel that it ought not to take up the proposition for a change. At present the exchange has fallen so low that the bullion value of the present dollar would be far less. Moreover, the salaries of the government officials have now been placed on a sterling basis, so that they have not the interest in the change that they formerly had, and business men feel that there is no likelihood, in the immediate future at any rate, of any change being made.

Likewise, judging from the testimony of business men themselves, not all are dissatisfied with the present system. They have become

used to it, and, in a great many instances, especially during the period of decline in exchange, they were receiving the stimulating benefit which comes to those who may pay their obligations in a depreciating standard, while realizing on obligations due them in part on a rising standard.

Those, moreover, whose dealings have been mostly with the Chinese and with those countries that are on a silver standard naturally prefer that the Straits Settlements remain on the silver standard. The value of their coin will then fluctuate as compared with gold substantially in unison with that of the other countries with which they are dealing. On the other hand, so far as they are dealing directly with the native Chinese coolie, as are many whose interests are in mines and in large estates in either the provinces or the Federated Malay States, they have the coin which, on the whole, suits the coolie best, and they can supply his needs in this coin at rates much more satisfactory to themselves than if they were to adopt another coin not so well adapted to meet the Chinaman's peculiar wishes. It may be that, in the long run, a gold system would adapt itself to the needs of the country, or, to put the matter from the other side, that in the course of time the Chinaman would learn the actual mercantile value of the new coin and would adapt his demands to meet the needs of the case. But such a process must necessarily be slow, and for the time being both employer and Chinaman seem satisfied.

*Opinion of Chinese merchants.*—It seems to be the almost universal opinion among the influential Chinese dealers and producers in Singapore that the silver standard is the best. This comes in part, doubtless, from the fact the Chinese are directly interested in many cases in the production of tin, gambier, and other goods for export, and believe that with silver falling they make direct gains. In part, however, this preference comes from the natural liking of the Chinaman for speculation. One of the most influential Chinamen in Singapore has stated that in the discussion of such a question one should keep continually in mind the difference between the Oriental and the westerner as regards their methods of doing business. The westerner, he says, likes to eliminate as far as possible the speculative factor from business. He prefers to be able to count accurately on the future. On the other hand, there is always more or less of gambling risk in business, and the Oriental enjoys that. He is fond of gambling in any way, and likes business better if it has more of the speculative element. In the long run he thinks he is likely to win. On that account, therefore, the Chinaman will prefer the silver standard, even when he is dealing with a gold country.

*Situation in Federated Malay States.*—In the Federated Malay States the situation is quite similar to that on the east coast of Sumatra, excepting that there is only the one system for officials and coolies, whereas in East Sumatra there are two. A very large proportion of the population in the Federated Malay States are Chinamen, March 31, 1901, 303,364, as compared with 313,763 native Malays, while the total population is only 676,138. In Perak, the most important of the Federated States, the Chinese outnumber the Malays by some 16,000, and in Selangor by some 68,000, these being the two great tin-producing States. A large proportion of the Chinamen in all the Federated Malay States are miners, who are working the mines temporarily, with the expectation of returning to China as soon as they have accumulated a sufficient amount to enable them

to satisfy their future needs. They have the same expectation of taking dollars or an order for dollars to China with them as have the Chinese in Sumatra, and they also, like those in Sumatra are for the most part not colonists nor permanent settlers, but merely transitory workers, who after their brief task is done are going back to China to enjoy the fruits of their toil, and who believe that the large silver dollar has for them much more value than its equivalent would have were the rate of exchange fixed with gold at a rate as high as that of the Dutch guilder or even that of the Indian rupee.

A good number of persons believe that the advantages of both systems—the cheap money for the coolies and the fixity of exchange for the merchant—can be secured by establishing now a fixed rate of exchange at somewhat near the regular market bullion ratio and maintaining that rate. Of course the difficulty of such a plan is that of knowing beforehand what ratio to adopt in order to be sure that the ratio can be maintained without difficulty and without too serious danger from counterfeiting or other evils common in countries where the bullion value of the coin is very much less than its debt-paying value.

So far as the Federated Malay States are concerned, with their mining and planting interests, there can be apparently no question that the silver dollar, for a considerable time to come, at any rate, is satisfactory; probably more satisfactory than any system based upon gold. It would not pay to change. If the Chinaman could be readily educated so that he would not object seriously to changing the nature of the money in which he receives his pay, one might possibly reach a different conclusion; but in dealing with such a question as this the opinions or sentiments, even the mere whims, of the money users have a great deal to do in determining what kind of money it is best to use.

#### FRENCH INDO-CHINA.

With the exception of Indo-China, the French colonies have the system of currency used in France, with some slight modifications of no special economic significance. In Indo-China a French commercial trade dollar has been coined, similar to the trade dollar in the Straits Settlements, which circulates in international trade with the Mexican and British dollar. The colony is on a silver basis; but for government transactions the Governor-General fixes a rate of exchange between the commercial dollar and the gold franc. This rate of exchange is made very near the commercial rate, and whenever the commercial rate varies materially the governor-general changes the official rate. A variation of more than 10 centimes would never be allowed; ordinarily the variation is only 1 or 2 centimes. It seems to be the habit of the governor-general to keep the rate a trifle higher than the commercial rate, so that in receiving the taxes, etc., there will be a slight gain to the government.

Business men are said to complain of this continual variation between the two rates, because local dealers are likely to take advantage of the situation in their transactions with those who are more or less in their hands by taking whichever rate is most advantageous to the dealer himself.

Some persons think that it would be advantageous to adopt the French standard for Indo-China also, in order to avoid this trouble-

some variation between the two rates. Those who seem best informed, however, seem to think that it would be a wiser plan to adopt outright the silver standard and let the government take the commercial rate into its business.

M. Simon, the Paris manager of the Indo-China Bank, a very well informed man on the subject, was of the opinion that the silver standard was far preferable for Indo-China, inasmuch as her chief commercial relations were with China, her rice being mainly sold there.

M. Noufflard, who, a year or two ago, had visited, in behalf of the French Government, Madagascar and Réunion, as well as the British colony of Mauritius, had reached the conclusion, from what he saw in those islands, that the silver standard was far the best for colonies situated as were those. He found that Mauritius had, some time ago, adopted the silver standard instead of gold, whereas Réunion, also some time in the past, at the instance of the French officials who were suffering from the fall in the price of silver, had adopted the gold standard. He said that Mauritius had apparently flourished under the silver standard, whereas in Réunion there had been a continual depression in trade ever since the adoption of the gold standard. From very careful study in connection with the whole situation, he had reached the conclusion that the chief cause of the difficulty was the gold standard, considering that the island was dealing largely with silver countries. He found, also, that in Zanzibar, and even in German East Africa near Zanzibar, the silver standard was used, though in the German colony it was apparently merely a matter of custom. He believed that an agreement with the nations concerned for a silver standard in the French, Dutch, and English colonies of the Far East and of East Africa with coins of the same weight, which should be practically interchangeable would be very beneficial.

He thought also that it would be advisable for the Philippine Islands to come into such a convention. The standard to be adopted, in his judgment, should be either the Indian rupee or the Mexican dollar. From his conversation it would appear that since the fixing of the rate of exchange in India, he would prefer the coins to be of the weight of the Mexican dollar.

#### CONCLUSIONS.

On the whole, the experiences of India, Java, Ceylon, the Straits Settlements, and the Federated Malay States lead to the following conclusions:

1. It is perfectly possible in Oriental dependencies to maintain a fixed rate of exchange between gold and silver without the necessity of bringing gold, to any great extent, into circulation.

2. In countries where imported coolie labor is of great importance and where such coolie labor is mostly Chinese, it is probable that better terms (i. e., a lower percentage of cost in wages) can be made by using the silver standard than by using the gold standard.

3. When silver is declining in value as compared with gold, a silver standard, beyond doubt, affords a stimulus to the production of goods for export, especially if the laborers employed are of the ignorant coolie type, the prices of whose purchases are largely customary. In the case of a newly developing country where coolie labor is demanded, this stimulus may prove, for some time at least, of advantage without

disadvantages enough to offset. It is a question of degree of advantage and disadvantage.

4. The advantage to the producers of export goods are offset in part doubtless by losses of wage-earners, in part by losses of consumers of imported goods; but this influence on the distribution of wealth may, quite conceivably for a considerable time, be beneficial to the country as a whole.

5. On the other hand, conditions may be such that this change in the distribution of wealth may be a disadvantage, and each country needs to consider what the effect of the change in the distribution of wealth will be before settling its policy.

6. In the long run, it is probable that under any standard these changes in distribution will be gradually fixed, so that producers in a country with a gold standard will not continually be placed at any disadvantage regarding wages and other costs of production as compared with those in the silver standard countries.

7. The silver standard, under present circumstances, and probably for a long time to come, brings an element of uncertainty and speculation into business, which, speaking generally, is to be considered a decided disadvantage.

8. It is probable that in a country whose business is largely with gold-standard countries, the advantages of a fixed rate of exchange on a gold basis will more than offset the advantages which might come from a silver basis, unless the most important factor in connection with production is the introduction of cheap coolie labor. Even in the latter case, if there is a desire to develop especially the trade with gold countries, the fixed rate of exchange with gold is to be preferred.

9. The flow of capital for investment in a country is determined mainly by the outlook for profits. Unless the chances are very good, an added element of speculation in business tends to check investment. Unless, therefore, conditions of labor or other special conditions are such as to more than offset the risks of a fluctuating rate of exchange, a fixed rate on a gold basis will encourage the investment of capital.

10. If the gold standard, together with a silver currency, is to be adopted in any of these Oriental countries, the disadvantage which there may be in connection with it will be much less if the fixed rate of exchange be made as near as possible to the bullion rates, with the silver coin as a token, of light enough weight so that there will be slight danger of its being exported if a rise occurs in the value of silver bullion, and at the same time with the coin not too light so as to afford undue temptation to counterfeiting. A coin 15 per cent or 20 per cent below the fixed exchange value would probably be light enough.

11. A permanent rate of exchange can be easily maintained by a provision for the Government to sell exchange at fixed rates between the home government and the dependency. Such rates should be high enough not to interfere with ordinary business, but low enough to prevent extortionate business rates even temporarily in the dependency itself. A reasonable gold reserve in the dependency, to be used when large quantities are needed for export, may well be kept in conjunction with the above plan.

12. Whatever the standard of value, the efficiency of the currency system is greatly increased by the use of paper. An elastic bank-note system, with notes current throughout the country, has proved best.

## CHAPTER VII.—*Summary and conclusion.*

### I. CURRENCY.

*Effect of depreciating currency.*—The experience of the English and Dutch colonies during the period of the depreciation of silver from about 1873 to the present time seems to show that a currency which is rapidly depreciating, as compared with gold, tends toward stimulating the export trade and the business of manufacturing for export. This comes about, of course, from the fact that in these colonies the export trade has been mostly with gold-standard countries. In consequence, with a gold price remaining stable, the amount of silver received for the same quantity of goods in the colony was steadily increasing. The wages of laborers and the local cost of material employed in manufacturing being paid in silver, naturally remained more nearly stable. In consequence, manufacturers and exporters received steadily a bounty in addition to what might be considered normal profits. It is, of course, true that the buyers in Europe, recognizing the situation, in certain cases, discounted this advantage in their offers; but, generally speaking, there can be little doubt that the depreciating currency actually stimulated and aided the exporters and manufacturers.

*Effect in Sumatra.*—Naturally this gain must have been paid by someone. In the case of the tobacco raisers of Sumatra, whose expenses were chiefly for labor, the gain was secured mainly through increasing their silver prices without a corresponding increase in the wages of their coolie laborers. On the other hand, inasmuch as the laborers consumed chiefly goods which were raised in the country itself, not for export, and inasmuch as these prices, largely fixed by custom, did not in many cases go up, they did not feel the loss as they would have done had they been compelled to buy imported goods. Moreover, in many instances, where their goods were imported, as, for example, opium, either this came from silver-standard countries, or else, whenever the price showed a tendency to increase, the tobacco producers, in order to prevent dissatisfaction on the part of their laborers and the consequent possible demand for an increase of wages, sold opium to them at the previous rate, and themselves stood any loss that might come from its increased silver price.

*Effects in India.*—In India, where wages were largely a matter of custom and where the pay also was at times partly in truck, the laborer usually did not feel any immediate loss from the depreciation of the coin in which he was paid. In that country the sufferers were chiefly government officials and others whose salaries were fixed in terms of

silver rupees, but who had to consume in part imported goods, or who were compelled to make remittances to gold-standard countries.

With these classes should of course be classed the government itself, which, being heavily in debt to gold creditors in England, was compelled to remit from year to year a steadily increasing amount of silver or of silver credits, as that currency depreciated. The determination to fix the rate of exchange in India came about, of course, mainly from this necessity of the government itself. The result of fixing the rate of exchange with gold has been the relief of the government and of those who are compelled to live, to a considerable extent, upon imported or export goods, while it has taken away from the exporters and manufacturers and producers of export goods the stimulus which they were continually receiving before. So far as in fixing the rate of exchange there was an increase in the value of silver, that has come, of course, nominally at any rate, to the detriment of practically all Indian consumers and taxpayers. But, on the whole, it is probable that, as they consume largely Indian products, this has not been materially felt by them.

*Conclusions from experience.*—It would seem, therefore, that if a country is upon a silver standard it might be well to maintain that standard if one wished to stimulate the internal development of the country in the matter of export goods, and were also willing that those who consumed import goods and the laborers, so far as they had the opportunity of getting either import goods or of securing gold credits of any kind, should carry the burden, unless the evils that are likely to come from the fluctuation of currency would seem to overbalance.

It is a matter of doubt, however, at the present time whether silver is likely to depreciate any further. Many people have been of the opinion that, owing to the new gold discoveries and to the probable increase in the output of gold in South Africa since the close of the Boer war, silver will be likely to increase in value rather than to lessen as compared with gold. Should that occur, this stimulus spoken of would be changed into a drag upon progress.

The matter of stimulating the export trade also depends, to a considerable extent, upon the countries to which the exports are sent. If these are silver countries, the effect will not be felt. A country, therefore, might well consider whether it wished to stimulate trade with the gold countries or with silver countries before finally formulating its policy.

#### CONCLUSIONS REGARDING THE PHILIPPINES.

To apply, now, this experience to the situation in the Philippines:

*Effects of depreciating standard.*—While it is desired on the part of the American Government to develop as rapidly as is consistent with just treatment of the Filipinos the resources of the Philippine Islands, it is by no means the desire to do so at the expense of either the Filipino laborers or the local Filipino producers, who would receive their pay in silver. At present the hemp plantations are largely in the hands of small individual holders, who sell their product to the exporting houses, mainly English, for shipment to the chief importing countries, England and the United States, both of which are on the gold basis. The gain that would come from a fall in the rate of

exchange would naturally be kept chiefly by these European or American exporters, and the Filipino producer would receive little or none of it. Even if he were to receive some slight gain through an increased silver price, he is certain to wish to consume more or less—and continually more as time goes on—of imported goods. At present he uses some cotton, but as his income improves he will certainly use more in the way of tools, agricultural implements, and other articles of import. In all these matters, therefore, he would be losing if silver continues to depreciate; and, taking the matter as a whole, it is likely that the chief gain, if there were any gain, would come not to the Filipino, but to the American or European go-between.

In the case of the large sugar plantations, the gain would come also to the exporting merchant, or later possibly to the individual or corporation owning the large plantation. The burden would fall upon the laborers, who, at the present time, are mostly Filipinos. If Chinese coolie labor were admitted, and the Filipinos engaged in other labor, it would be the Chinese coolies chiefly, in this industry, who would carry the burden, and more, then, might be said in favor of the maintenance of a silver standard.

*Effects of fluctuations.*—On the other hand, as has been intimated, it is by no means certain that silver will depreciate steadily in the future. Moreover, it is perfectly certain that great embarrassments will come both to business men and to the government from the continually fluctuating currency. During the three months of the spring of this year the government had fixed the official rate of exchange between silver and gold at \$2.27 in silver for one American gold dollar. The rate at the time it was fixed was high enough. A rapid fall in silver, however, placed the market rate at considerably above \$2.30; most of the time it was as high as \$2.35 or \$2.36, and at times was even above \$2.40. The consequence was that all government officials and all who had contracts with the government were compelled to receive money at \$2.27, while in their outside purchases they were compelled to pay from \$2.35 to \$2.40. Practically all of the leading business houses in Manila at once changed their prices from the silver basis to the gold, and in making the exchange naturally took advantage of the consumer. Wage-earners in general, whose wages had been fixed in silver, were compelled to take their pay in that metal, and suffered accordingly.

*Difficulties of government.*—To the suggestion that the government change the rate more frequently whenever the market rate changes, the important objection is, aside from the hampering effect on business, that it is practically a matter of great difficulty for the government treasury officials to make these frequent changes in their rates. Many of the officials in outlying districts can not be communicated with oftener than once a month, or even once in two months in some cases, and a change made in Manila on, say, the 1st of September, if attempts were made to make adjustments, might cause two months afterwards, in some outlying province, a payment of additions to salaries not fully paid, or might involve the cutting of a subsequent salary in order to make even the government loss of the preceding months. It might even in special cases involve a practically impossible attempt on the part of the government to collect back money already paid out. If the prospect of gain to the common man were great, we might readily demand that the government take upon itself the trouble in-

volved in the fluctuating rate; but as such gain is not probable, inasmuch as at the present time nothing can be more important than for the government to run with as little friction as possible, and to avoid all possible causes of controversy with the people, it seems of the highest importance that the government be spared the difficulties of the fluctuating rate.

*Encouragement of commerce with United States.*—It is clearly best, also, when one looks to the future development of the Philippines, that its commerce with the United States be encouraged. This can be brought about, beyond question, on a more stable basis provided the rates of exchange between the Philippines and the United States be substantially fixed, fluctuating only with the demands of business.

For all these reasons therefore, it seems on the whole best that the Filipinos be given a fixed rate of exchange for their currency as compared with the gold standard of the United States.

*Nature of currency desired.*—It is, however, desirable, whenever any country is to establish a new system of currency, that the value of the coins most common in circulation be changed as little as possible. The wages of labor and prices already fixed are to a considerable extent matters of custom. If a monetary unit is introduced of considerably more value than the one abandoned, it will be necessary to make a nominal reduction of wages and of prices. The consequence is that laborers and less well-informed sellers of produce will feel that their income is being arbitrarily lessened, and great dissatisfaction is almost certain to be the result. One can easily see how a sudden action of that kind on the part of a government might produce even a revolution among people not well informed on monetary matters.

If the new currency, however, is one whose monetary unit is substantially the same or only a trifle higher than the one already employed no evil result of this kind will follow. There might even be a slight increase in the value of the monetary unit which would come to the benefit of the wage-earners and the local producers.

The system of currency recommended in the first place by the Philippine Commission, and afterwards formulated more completely by Mr. Conant, special commissioner of the War Department, follows out this principle. The new coin would be substantially equal in value to the Mexican dollar or peso formerly in use. It would, in fact, be slightly greater in value in the world's markets since this last fall in silver. It is probable, however, that the difference would not be great enough so that there would be any nominal reduction in wages, or, speaking generally, in the prices of produce.

It seems, therefore, that the wisest plan for the United States, if it intends to act in the interest of the native Filipinos and not exclusively in the interests of the comparatively few exporters and bankers, is to adopt the gold standard and to adopt the system of coinage recommended, which will produce as little disturbance in local conditions as any that has been proposed. It is extremely unfortunate that the system could not have been adopted before the last fall in silver, as in that case practically no disturbance whatever would have been noticed.

*Present measures.*—Meanwhile, without the gold standard, the Philippine government can, perhaps, relieve part of the embarrassments of its employees by keeping a balance in the United States, and selling to them substantially at the rate in which they are paid whatever drafts they need for remittances home; or, in many cases, the same result

might be accomplished more speedily by permitting them to have part of their salaries paid in gold to a designated representative in the United States.

If it were desired to fix the rate of exchange without abandoning the use of silver as the chief money of the Philippines, a plan might be adopted of arranging, through bureaus established for the purpose, for the sale in Manila of gold drafts on the United States and in the United States of silver drafts on Manila, at substantially the agreed upon ratio, somewhat after the plan recommended for India by Mr. Lindsay, of the Bank of Bengal, in Calcutta.<sup>a</sup> There is reason to believe that such a system would work to advantage in many ways, especially in connection with the plan for the currency recommended if it were thought desirable to encourage the use of silver.

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<sup>a</sup> See chapter on Currency Systems, p. 19ff.

### III.—“THE FUTURE OF THE LIMPING STANDARD.”

[By Charles A. Conant, in *Political Science Quarterly*, June, 1903.]

Events are stronger than theories in shaping economic tendencies. This has been illustrated in a striking manner by the monetary history of the past generation. The limping standard, forced by the logic of events upon France and the other countries of the Latin Union and upon the United States, while deplored by many in those countries as an evil, has contributed to diminish among the civilized nations the pressure for gold, and has permitted several important States to obtain, without too much difficulty, the supply of the yellow metal necessary to the inauguration of the gold standard. There are difficulties about the operation of the limping standard in the countries where it is now in force, growing out of circumstances which will be hereafter discussed; but these difficulties can be avoided where the creation of a coinage system can be undertaken in the light of present facts, and the limping standard may be made the effective means of restoring the par of exchange between the countries of the East and West, so long broken by the fall in the gold price of silver, and thereby of forging anew the link of commercial relationship which is so vital to the prosperity of both hemispheres.

The limping standard is so called because silver limps along behind gold, without enjoying the privilege of free coinage accorded to the standard metal, but nevertheless finding a large use as money and kept at par with the standard. From a theoretical standpoint, the limping standard may be defined as a monetary system requiring free coinage of the standard metal, with the concurrent use of token coins of other metals, such coins having full legal-tender power, but kept at par with the standard by Government control of their output.

The limping standard came about in the countries of the Latin Union as a natural result of the wide departure of the relative bullion values of silver and gold from the official ratio fixed by the coinage laws. These causes were considered by the law-making powers of those countries as compelling action to prevent the loss of their gold and their descent to the silver basis. It was recognized in all these countries that gold was the preferred money of modern commerce by reason of its large value in small bulk, its facility of transportation, and its availability for foreign trade and bank reserves. But it was recognized from the beginning that none of these countries could well afford to part with their entire mass of silver at its bullion price, and that the attempt to part with it at the price prevailing at any given date would so load the market with silver bullion that it could be sold only at a still greater loss, if it could be sold at all. Events, rather than deliberate choice, forced upon the countries of the Latin Union the continued use of their silver coins. This was not entirely the case in the United States, where political reasons led to deliberate legislation in favor of silver coinage, but even this legislation, badly conceived and disastrous as it was, may be attributed to the

blind instinct which preferred some form of currency during the days of national poverty to the struggle with the richer nations for the existing stock of gold.

If the annual gold production of the world had continued nearly stationary in the face of a growing demand, as was the case from 1873 to 1888, and the countries of the Latin Union and the United States had deliberately sought to reduce their silver coinage to the proportions of subsidiary money of limited tender, as in the monetary systems of Great Britain and Germany, then, indeed, with the constantly expanding demand for gold in the arts, "the scramble for gold," which has been the nightmare of bimetallic dreams, might have become a reality. Such an influence was probably more felt about the time of the international conference of 1881 than even at a later date, although the anxiety then expressed on the subject of the scarcity of gold was as exaggerated as the fears felt in 1850 over the abnormal increase of gold. It was at the conference of 1881 that the German delegates came forward with the suggestion that Germany would check her sales of old silver bullion, withdraw small gold pieces and notes of small denominations, and break up her large silver coins into smaller pieces.<sup>a</sup> It was of especial significance that such proposals should come from Germany, because that Government had refused to send delegates to the international conference of three years before. It was at the conference of 1881 also that Mr. Broch, the delegate of Norway, arguing strongly in favor of the gold standard among the civilized countries of the West, declared that the true field for silver was to be found "not by arbitrarily raising the value of this metal in Europe and America, but by encouraging its use in the countries of the Orient which still have a preference for it; in that vast Chinese Empire, scarcely yet opened to Europe; in that immense African Continent, which is to-day invaded from all sides and where trade is still carried on under the primitive form of barter, but where it would no doubt be easy to introduce the use of silver money."<sup>b</sup>

These expressions of Mr. Broch anticipated to some extent the actual course of events. The influence of the status quo always imposes itself with compelling force upon statesmen, however it may be disregarded by theorists. In the case of the countries of the Latin Union and the United States, it was not possible, without great loss to the budget and an economic upheaval, to substitute gold currency for the silver in use. It was possible to rescue the gold standard from disaster by taking under Government control the output of silver coins, and thereby removing the premium offered to the owners of silver bullion to deluge the country with their product at the expense of its monetary system. France elected, or, rather, was compelled by the force of circumstances, to keep in use her 2,000,000,000 of francs of silver rather than to replace it by gold. The United States, realizing, perhaps intuitively, the difficulty of withdrawing gold from nations which were then stronger than herself in the competition for surplus capital, pumped silver into her currency until the danger point was reached and passed, and even reasonable bimetallists were compelled to admit that the continuation of silver purchases, instead of promoting bimetalism, would cast the country upon the reef of silver monometallism.

The most attractive feature of the bimetallic doctrine is the theory of compensation, by which the fluctuations in the supply and the value

<sup>a</sup> International Monetary Conference of 1881, pp. 29-30.

<sup>b</sup> International Conference of 1881, p. 45.

of one metal are supposed to be compensated by the fluctuations in the opposite direction of the other metal. This theory, in the words of Professor Foxwell, rests upon "the general presumption that where you have two sources of supply, each equally likely to fluctuate in quantity, the joint supply would be more stable than either of the separate sources."

This, he declares, "is the principle upon which you would go in choosing to select for a water supply two sources rather than to leave yourself dependent upon one, provided that there were no reasonable presumption beforehand that both sources of supply would follow exactly the same variations."<sup>a</sup>

Unfortunately, even if this theory were well founded, it can not be worked out in practice without imposing upon one nation or another the function of a sink for the cheaper metal. France would undoubtedly have acted as a parachute for the fall of silver if she had continued, after 1873, to keep her mints open to the free coinage of the white metal, but in so doing she would have witnessed the flight of all her gold to those countries which preferred the gold end of the compensation to the silver end. Between France and any group of other nations the law of compensation would have kept the aggregate supply of money at nearer its old value than if France and all other nations had adopted gold and disposed of their silver, but the nations which excluded silver from their monetary system would have received the bulk of the gold, and France would have been burdened with practically all the silver.

An interesting suggestion for obtaining the benefits of the law of compensation without the evils of concurrent free coinage for two metals of fluctuating value was made some years ago by Prof. Léon Walras in a little pamphlet entitled *Théorie de la Monnaie*. He frankly rejected the contention of the bimetallic school that it was possible by law to give absolute fixity of relation to two different commodities. He proposed that whichever happened for the moment to be the cheaper metal should be treated as a token coin, that its free coinage on private account should be suspended, and that its output should be regulated by the Government. Admitting the necessity for the adoption, under present conditions, of a new ratio between gold and silver, he maintained that silver should be coined by the Government whenever there developed a scarcity of money as indicated by a low mean of prices, but that such coinage should cease before the security of the standard was threatened by the excessive exportation of the standard metal. Carried thus far his project was not beyond the pale of the world of realities. He proposed, however, in making the project of universal application without regard to time or space, that if gold should again fall below silver at the coinage ratio, then the mints should be closed to the free coinage of gold, and its output should in turn be regulated by the Government. An international agreement he conceded to be necessary to carry out this system without inviting the evils which would follow an excessive coinage of the undervalued metal by any one nation. He declared that otherwise, "if the Latin Union alone resumed the coinage of crown pieces, the first effect of the resumption would be to make all its gold drift abroad, and to leave it deprived of its standard money."<sup>b</sup>

<sup>a</sup> Prof. H. S. Foxwell's evidence before the Royal Commission on Agriculture of 1894. Q. 823, 838.

<sup>b</sup> *Théorie de la Monnaie*, p. 80.

Professor Walras pointed out that if these evils were restricted by an international agreement it would be necessary also that the principal monetary powers should regulate their issues of government paper and of legal-tender bank notes in the same way as their output of token coins, or the control of the variations of the value of money would prove illusory. In this theory, so thoughtfully worked out by Professor Walras, lies, probably, the intelligent diagnosis of the end toward which the leading countries with the limping standard have, under the pressure of events, been blindly groping. Each of those countries has contributed toward diminishing the pressure upon gold, and toward the prevention of undue changes in the relations of the stock of money to commodities, by keeping in circulation token coins of full legal-tender power up to the limit of the amount demanded by the needs of trade.

It is hardly necessary to combat the extreme form of the bimetallic theory, which came to the front in the United States in the silver campaign of 1896, that prices are regulated by nothing but the volume of the standard money, and that in meeting the pressure for currency all substitutes and economies count for nothing. Common sense indicates that if the quantitative theory of money has any force, prices must be higher if a community has a currency stock of \$1,000,000 in gold, silver, and paper than if it has only one-quarter as much, even though the latter be entirely in gold. Intricate as is the problem of the relation of money to prices, there can be no such contention intelligently maintained as that all economies in the use of standard money have no influence in accomplishing the ends for which they have been devised in diminishing the demand for money and increasing its efficiency.

On its practical side the plan of Professor Walras has been unconsciously followed by the countries of the Latin Union and the United States. They have encountered difficulties, however, which justify a careful examination before the limping standard can be recommended for adoption in any new coinage project. These difficulties may be grouped thus:

1. The great difference between the bullion value and the face value of the token coins.

2. The lack of adaptability of the token coins to trade requirements in the advanced countries.

3. The excess in supply of the token coins, or at least the lack of automatic responsiveness in their amount to the needs of trade.

- I. The difference between the bullion value and the face value of the coins of the Latin Union and the United States is an almost insuperable obstacle to the substitution of a pure-gold currency for these coins, and exposes them to great danger of counterfeiting. The coins are now worth only about 45 per cent of the value for which they pass in retail trade, and may be legally tendered in payment of contracts expressed in money. No loss to the creditor accompanies these conditions, but a heavy burden is imposed upon the credit of the state in keeping the coins at their face value. It was estimated in 1898 that France, if she had attempted to convert her silver coins into pieces corresponding to the market price of silver bullion, at the ratio of 35 to 1, would be subjected to an expense of about \$235,000,000.<sup>a</sup> Such an expense has inevitably deterred her from withdrawing her old 5-franc pieces and selling them for gold. The profit in counterfeiting such pieces is more than 100 per cent, even when the counterfeits

<sup>a</sup> Darwin, Bimetallism, p. 51.

contain the full amount of fine silver contained in the official coins. Many such counterfeits have been found in the United States, some of them containing a fraction more of fine silver than the amount required by law, and their wide distribution has been prevented chiefly by the fact that the official coins do not circulate widely, and any suspicious appearance of new pieces in circulation in a given neighborhood would quickly attract the attention of the agents of the secret service.

In a country inaugurating a limping standard system under present conditions, no such wide departure of the bullion value of the silver coins from their face value need be permitted as has come about in France and the United States. When Japan adopted the gold standard in 1897 the ratio between gold and silver was fixed near the market ratio of the two metals.<sup>a</sup> This took away any unusual temptation for counterfeiting, and permitted the resumption of gold payments without disturbing the relation of prices and contracts existing at the time. A similar policy was that recommended by the House Committee on Insular Affairs in the Fifty-seventh Congress for adoption in the Philippine Islands. Mr. Cooper, the chairman of that committee, said, regarding the proposed coinage plan:<sup>b</sup> "The proposed coin would be of substantially the same size as the coins now in use in the Philippines. It is made somewhat lighter than the Mexican silver dollar, in order to prevent its rising above 50 cents in gold in case of a considerable rise in the gold value of silver bullion. Containing as it does 385.8 grains of silver of the fineness of 0.835, it is issued at a ratio to gold of about  $27\frac{1}{2}$  to 1, instead of being issued at the rate of 16 to 1, which is the rate of the coinage of the standard silver dollar of the United States. The new coin is theoretically issued at the ratio of 32 to 1, or at half the value given to silver in relation to gold by the American coinage law; but it was not thought desirable to coin it exactly at this ratio, because of the possibility that a marked rise might occur in future in the price of silver bullion. If such a rise should carry silver to its bullion value in gold, the coins would be more valuable as bullion than as coin, they would be withdrawn from circulation, and the islands would be subjected to all the evils of a famine in their currency supply. Ample provision is made against such a rise in the price of silver by the margin of about 20 per cent between the exchange value of the coin at the ratio of 32 to 1 and the amount of pure silver which the coin would contain."

It is unquestionable that if the limping standard is to be made applicable to the conditions encountered in the Orient it must be by the recognition of a new ratio between gold and silver, corresponding in some degree to the recent market ratio. The countries of the Latin Union and the United States, burdened with many millions of silver coined at the old ratio of  $15\frac{1}{2}$  to 1 and 16 to 1, have to deal with a condition whose difficulties they must meet in the best practicable manner; but the limping standard, in its theoretical application, must take some account of the market value of silver, although it furnishes means of guarding against the fluctuations of this value.

## II. The lack of adaptability of large silver coins to the requirements

<sup>a</sup> The report on the bill declared that "it would be well to raise the rate for our purpose a little, and fix it at one of gold to thirty-two and a fraction of silver;" but the actual silver coins were made only eight-tenths fine, in order to prevent their exportation in case of a rise in silver. (The Adoption of the Gold Standard in Japan, p. 187.)

<sup>b</sup> Administration of Civil Affairs in the Philippine Islands, House Report 1540, Fifty-seventh Congress, first session, page 7.

of trade in the advanced countries has become very clear as wages have risen and wealth has increased. Such a progressive development causes a natural evolution from a cheaper to a dearer money metal. Silver was once much more valuable in its relation to gold, to commodities, and to labor than it is at the present time, even at the legal ratios of  $15\frac{1}{2}$  to 1 and 16 to 1. When the power of money over commodities was five or six times what it is at present, silver was much more suited to the purposes of money than under modern conditions. As the Vicomte d'Avenel declares:<sup>a</sup>

"The diminution of the purchasing power of the precious metals has rendered silver inconvenient and unsuited to a multitude of uses which it formerly served. The same object which could be obtained in the year 1400 or in 1500 for 1,000 grams of silver would demand to-day 5,000 or 6,000 grams. A kilogram could be carried in the pocket and 5 or 6 kilograms in one's valise, but one objects to 5 or 6 kilograms in the pocket and 25 or 30 in the valise."

The situation differs, however, in the undeveloped countries of the Orient from that in the wealthy countries of the West. A currency which contains a large proportion of gold coins is better adapted than a currency of silver to the needs of a wealthy country, but a currency which contains a large proportion of silver coins is best adapted to the needs of a poor country. This is because the standard of wages and prices is higher in the rich country than in the poorer. In British India, China, and the Philippines, where the wages of skilled labor are 40 cents a day in silver or 20 cents in gold, a pure gold currency would leave the average laborer in about as convenient a position in making his retail purchases as Mark Twain found himself in with his million-pound note.

The smallest practical gold coin represents in the Orient the value of \$1, or the pay of five days' labor. It is obvious that convenience as well as necessity would lead countries under such conditions to a large use of silver currency in preference to the attempt to retain and use a pure gold currency. To neglect of this element in the monetary problem are probably due some of the embarrassments which have been felt in Japan since the introduction of the gold standard; and it may be questioned whether Russia has not vaulted too far, in view of her present standard of wages and national wealth, in adopting the pure gold currency of her richer rivals, Great Britain and Germany.<sup>b</sup>

III. That France and the United States have suffered materially from their excessive stock of overvalued silver coins hardly admits of serious dispute. In the United States a serious panic was invoked in 1893 by the large infusion of silver into the currency beyond any natural demand. The excess of silver tended to expel gold and to destroy the gold basis of the currency system. The difficulty was due, however, to the fact that the Secretary of the Treasury was required by law to purchase silver bullion to the value of \$4,500,000 per month, and issue circulating notes for this silver without regard to the need for currency in the markets. The moment that the supply of silver or silver notes passed the limits of the normal demand a progressive

<sup>a</sup> *La Fortune Privé à travers Sept Siècles*, page 64.

<sup>b</sup> The Russian delegate at the international conference of 1881, fifteen years before the adoption of the gold standard in Russia, called attention to the fact that half of what Russia, Austria-Hungary, and Italy would require for the resumption of specie payments would be found if the gold pieces equivalent to 10 francs (\$2) and below were transformed into silver pieces. (Russell, *International Monetary Conferences*, p. 287.)

deterioration of the currency set in. Assuming that the requirement for currency was a constant quantity, every dollar of new silver added to the circulation tended to expel a dollar of gold. This obviously need not occur under a proper regulation of the output of token coins by the Government.

The essential evil of the token coinages of France and the United States, which has naturally cast discredit upon their monetary systems, is that their token coins have been issued far beyond the demand for them in the channels of trade, and therefore far beyond the limit of safety. Both countries have outgrown the prejudice in favor of specie over well-secured paper. Proof of this has been afforded in France by the steady accumulation of silver in the vaults of the Bank of France. From 1869, when the maximum silver holdings of the bank were 593,300,000 francs (\$115,000,000), the silver rose in 1880 to a maximum of 1,282,500,000 francs (\$248,000,000), and has ever since oscillated around this figure. There has been no substantial increase in the demand for the white metal for circulation, in spite of the share which has fallen to France of the great increase in the world's volume of trade since 1880. As M. Noel declares:<sup>a</sup>

In virtue of the economic law which tends to simplify methods of payment, silver was at first less sought and then neglected by the public, until it naturally drifted to the private banks and from them to the Bank of France, which serves them as a reservoir. Of the two thousand five hundred millions of silver which France possesses, nearly half is immobilized in a permanent manner in the reserves of the bank, from which it never comes out unless to immediately return.

In the United States the proof that the era of silver has gone by is afforded by the failure of repeated efforts to increase the amount in circulation and the ready acceptance of paper certificates for the coined pieces. The circulation of standard silver dollars was \$67,547,023 at the close of December, 1891, and the highest point attained during the succeeding ten years was only \$73,113,520 on October 31, 1901. The circulation of silver certificates, on the other hand, rose from \$320,817,568 on December 31, 1891, to \$457,154,585 on March 1, 1903. Discredit is inevitably cast upon the silver coins of these countries because they are not exchangeable for the standard metal and they were issued at an antiquated ratio, which makes their bullion value much more disproportionate to their face value than ought to be the case. Each of these countries, burdened with a mass of silver issued at the ratio of 15½ to 1 or 16 to 1, is compelled to deal with conditions as they are, and to maintain its token coins at parity by such measures as suggest themselves without imposing too heavy a burden upon the public treasury. A government inaugurating a token coinage for the first time would properly choose a very different ratio between gold and silver, and would take measures to check the output of token coins whenever the quantity threatened to flood the channels of the treasury receipts or to impair their fixed relation to the standard.

The advantages of the limping standard under intelligent direction may be thus summed up:

1. Diminution of the pressure upon the world's supply of gold.
2. The maintenance of the par of exchange between oriental and western countries.

<sup>a</sup> *Les Banques d'Émission en Europe*, I, page 183. The maximum silver holdings of the Bank of France in the year 1901 were 1,124,400,000 francs (\$217,000,000), and the average was 1,105,900,000 francs. *Bulletin de Statistique* (February, 1902), LI, page 212.

3. Adaptability to poor or undeveloped countries.

4. The opening of markets for silver, with the result of steadying its value.

I. The limping standard has become since 1873 the standard of several of the leading commercial nations of the world. These nations are France, Belgium, Switzerland, and the United States. The principal countries which adhere positively to the gold standard, with the use of silver only as a limited legal tender, are Great Britain, Germany, and Russia. These seven nations represent a very large proportion of the wealth and commerce of the civilized world, and the influence of their policies upon the stock of money metals is necessarily great. Of the total gold money of the world they hold almost precisely four-fifths, and even of the silver money they hold nearly 60 per cent outside the great stocks of China and India. The part which is played by gold and silver in the monetary systems of these seven leading nations may be inferred from the following estimate from official sources of their stock of metallic currency on January 1, 1901:

	Gold coin.	Silver coin.
Limping standard:		
France .....	\$810,600,000	\$421,200,000
Belgium .....	17,800,000	35,000,000
Switzerland .....	24,000,000	10,700,000
United States .....	1,110,800,000	655,800,000
Total .....	1,963,200,000	1,122,700,000
Gold standard:		
Great Britain .....	511,000,000	116,800,000
Germany .....	721,100,000	208,400,000
Russia .....	724,300,000	102,500,000
Total .....	1,956,400,000	427,700,000

These figures show that while the countries with a pure gold standard are compelled to make considerable use of silver their silver stock is less than 22 per cent of their gold stock, while in countries where the limping standard prevails the silver coinage is more than 57 per cent of the standard coins of gold. If the continued use of both metals, therefore, has contributed to steadying prices by maintaining that law of compensation in the relative supply of the two metals upon which bimetallists so much rely, it may be fairly contended that the maintenance of the limping standard in these four representative countries has obviated the need for nearly \$700,000,000 in gold coin, and thereby diminished by that amount "the scramble for gold," which bimetallists consider to be so serious a result of the general adoption of the single gold standard.

II. The interruption of the old par of exchange between the gold-standard countries of the West and the silver-using countries of the Orient has been one of the most disturbing features of the fall in the value of silver. The evils which it has caused were forcibly set forth by General Walker in his discussion of the subject in 1896: "Such fluctuations in the relative values of the two money metals continually involve international trade in embarrassment and disturbances of a most serious character, and often reduce it to mere gambling. Without some tie which can hold the two metals at least near to each other during the time between the manufacture and sale of commodities and the receipt of the proceeds the producer in a gold

<sup>a</sup> International Bimetallism, p 139.

country can never tell for how much silver he must sell his goods in order to make himself whole and perhaps win a profit. The range of possible losses or possible gains from this source is such as to be altogether out of proportion to the range of the ordinary chances of industrial and commercial enterprise."

It is correctly declared by Major Darwin that "though it is possible to insure against many of the risks which are thus experienced, the price paid for the insurance constitutes a true burden on trade."<sup>a</sup> The insurance proposed by the bimetallists against these fluctuations has been that all nations—whether rich or poor, whether their unit of pay for a day's labor was \$2 or 20 cents—should be chained upon the Procrustean bed of free coinage for both metals. A better insurance is offered by the system of the limping standard. The logic which makes silver the most useful form of currency in undeveloped countries points out the natural course to be pursued by those countries in the future in adapting their monetary systems to modern conditions. It is possible for all these countries to adopt the gold standard while retaining silver in daily use. They thus obtained one of the essential advantages claimed for bimetallism by abolishing the fluctuations of exchange between gold and silver countries caused by the depression of silver without drawing heavily upon the world's stock of gold.

Unconsciously this theory has been worked out in British India, where use is found for nearly \$500,000,000 in full legal tender silver, but where all this silver is maintained at a fixed ratio to gold. The British Government by the act of 1899 established a gold fund in India and at London for the purpose of maintaining the parity of the standard silver coin with gold. This coin, known as the rupee, contained silver worth originally a little less than 50 cents in American money, but it fell gradually to nearly the level of silver bullion until 1893. In that year, as the result of the report of the Indian Currency Commission, the free coinage of rupees was suspended and the attempt was made to fix their value at 16d., or about 32 cents in American money. At first the experiment was difficult. There was a surfeit of rupees, and they poured out in great quantities from hoards when it was found that their legal value had been raised above their bullion value. The Government, however, persevered in selling exchange on India at London as near the new ratio as could be obtained and in receiving the rupees at that ratio for public dues. Under ordinary conditions these measures would almost of themselves have maintained a limited silver coinage at par with the standard. While this result was delayed in India, it was so completely achieved by 1899 that in that year the Indian government felt strong enough to establish a gold reserve and offer to deliver silver rupees for gold. The offer was not made at first to pay gold for rupees, but it was soon found that the limitation of the coinage had created a demand for rupees which drew gold into the treasury instead of drawing it out. Commenting upon these conditions the secretary to the government of India said in his financial statement for 1900-1901:

"We have frequently been told, and with perfect justice, that we could never claim to have a true gold standard in India until we were prepared to exchange gold for rupees as well as rupees for gold. By being prepared to exchange I do not mean that we should accept a legal liability to give gold for rupees, but that in practice, as, for example, in France, anybody who wanted gold for internal purposes should

<sup>a</sup> Bimetallism, p. 132.

be able to obtain gold freely without let or hindrance. Theorists, indeed, argue that neither France nor the United States possess a gold standard in the full and complete sense of the words. But I think no one will dispute that if we can advance to the same position as France we shall have attained a gold standard for all practical purposes. A year ago it seemed that we should probably have to sit for a long while under the reproach of our critics, and put up with what has been termed an "exchange standard." It then appeared impossible that in twelve months we should be paying out gold to anybody who asked for it. We are doing so now. Whether we shall be able to continue to do so without check or interruption, whether now that we have once started giving gold for rupees we may not have to suspend temporarily, is not a matter about which confident prediction can be made. But it would be reasonable to say that the auguries are not unfavorable for our being able to pursue the path on which we have entered. Our position in respect of gold is strong. In India and London we have accumulated nearly £8,600,000."

In Japan the same system of a silver coinage on a gold basis prevails to some extent. It is perhaps a weakness rather than a strength of the Japanese system under existing conditions that the silver coins are not full legal tender, and that a determined effort has been made to introduce gold coins into common use. The coinage of the silver yen, of about the size of the American standard dollar, was discontinued with the adoption of the gold standard, and the largest silver piece now issued is for a half yen or 50 sen. While the Japanese system constitutes the logical application of the gold standard, it represents even more than the gold standard of Russia a somewhat adventurous vault by Japan into the circle of the wealthiest and most advanced commercial nations. The gold standard has been successfully maintained in Japan in spite of some obstructions growing out of overspeculation; but it may be questioned whether she would not have pursued the truest economy by following the system of British India, in introducing a gold standard instead of the actual use of gold.

III. For undeveloped countries the use of silver in large amounts is a vital necessity, and it usually comes into use, even in the face of hostile laws. Silver is the usual medium of exchange in Java, where a gold standard exists with hardly any gold in use, and it is the universal medium in China and other parts of the Orient, even though the coins have to be sought in a foreign and distant country.

The advantage of a token coinage for comparatively poor or undeveloped countries is the same as the advantage of paper credit—it permits an economy of capital. The token coins are less expensive than coins of the standard metal, both by the margin between their face value and their bullion value and by the fact that they are made from the metal for which competition is less severe. A country employing a large volume of token currency is not in danger of losing such a currency by exportation. The coins can not be melted up for their face value. While they may have the character of gold exchange on the country where they are issued, they can only be converted into gold by sending them back to that country in the form of coin when they drift abroad.

The maintenance of a token currency instead of one entirely coined from the standard metal is an interference to a limited extent with the automatic play of the self-interest of individuals which prevails under free coinage, but all coinage systems are the result of official action taken to promote the convenience of the community. Constant

intervention by the government is a part of the existence of any system, even where free and gratuitous coinage on private account is authorized by law. The advantage of a token currency maintained constantly at par with the standard metal is that the government takes upon itself the responsibility for maintaining the par value of the token coins by means of a gold reserve, and takes the necessary steps by the issue of a loan or by taxation to maintain this reserve.

The government interferes with the law of natural selection which would lead the individual to dispense with currency in order to obtain some more necessary form of capital, but in doing so brings a real advantage to the community by maintaining an adequate medium of exchange where it would not be obtained under a system of free coinage of the standard metal without token coins. In this, as in many other matters, the government may properly intervene to obtain a benefit of great importance to the community as a whole, but of a character which would not result from the free play of self-interest among individuals and could not result from it except by concerted action.

It is a principle now generally admitted that in order to prevent exportation the subsidiary coins of any country should not be of their full face value. The extension of this rule to token coins of full legal-tender power is preferable to going without an adequate currency, if the parity of such coins with the standard can be made unquestionable. In spite of the somewhat artificial nature of such a project, a proper system of token coinage, with adequate provision for supplying gold for export, would operate in substantially the same manner as a coinage consisting entirely of the standard metal. When an excess of the token currency was in circulation, it would come to the treasury offices for redemption in gold, thereby reducing the amount of token pieces in circulation and permitting the surplus withdrawn from the treasury to be exported in the metal of international trade. When, on the other hand, a deficiency of token currency was disclosed by the demand for it, the deficiency would be corrected by the importation of the standard metal and its presentation for exchange into the token coins. This is the principle which has been adopted with such success in India and which would probably be found efficient in all the countries of the Orient.

It can not be properly said that such a well-organized system of token coinage involves any other departure from security or sound monetary principles than is involved in other extensions of credit designed to economize the use of the standard metal. The principle is the same as with the issue of bank notes upon a coin reserve, and involves the application of the same banking principles in the regulation of the quantity of the currency and in keeping intact the reserve necessary to maintain the credit issues at an equality with the standard. Undoubtedly, from a theoretical point of view, a token issue of credit paper secured by a proper gold reserve has most of the advantages of a token coinage of silver, and has also a much greater economy. So far as paper is adapted to economic conditions and popular prejudices, it should be introduced in preference to token coins, especially for currency of the larger denominations. The poverty of Japan and her inability to maintain gold in actual circulation have resulted in the wide use of paper, even down to the denomination of 1 yen (49.8 cents).

The practical problem, however, with which statesmen have to deal is the prejudice of the peoples of the East, and many of those of the

West, for a currency of ringing metal rather than one of paper. The recognition of money as a commodity is instinctive among primitive peoples, and leads them to prefer a form of money which possesses tangible value in itself and permits a more satisfying form of ostentation than the display of a roll of bank bills. The adoption of a token coinage, possessing an exchange value approximating its bullion value, promises to be the most important step which can be taken in our time in educating the undeveloped peoples to the true function of money and credit, and the final evolution of a bank-note currency resting upon an adequate gold reserve. Metallic tokens can not be entirely dispensed with, even among the advanced nations. There are reasons connected with the standard of wages and living and the risks of destruction by weather and insects which make them naturally preferable to paper in certain tropical and undeveloped countries. Where the bullion value of the coins, moreover, is only slightly below their face value, a token coinage gives more solidity to the currency system and is less likely to result in demands for the standard metal than the premature adoption of the highly organized gold-credit currency systems of the nations of the West.

IV. Injurious as the limping standard has proved in some respects to the monetary interests of the countries of the Latin Union and the United States, the logic of events has perhaps, as already suggested, been wiser than abstract theory. If the single gold standard had been adopted in all countries in the form in which it prevails in Great Britain, without regard to their scale of wages and prices or their surplus capital available for investment in the tool of exchange, there would undoubtedly have been a much more severe pressure upon the world's supply of gold than has actually been felt. This pressure would probably have drawn the metallic medium of exchange to the richer countries from the poorer and left the latter impoverished in their means of carrying on transactions.

It would have caused a still further fall in the value of silver by diminishing the demand for it. But a large market would be opened for the white metal if the limping standard should be adopted upon a scientific basis in the countries which are now without a currency or are laboring under the difficulties in their relations with gold countries caused by the single silver standard. Such a system would be an almost unlimited blessing to these less advanced countries for many years to come, and would make their transition to a gold currency almost absolutely automatic if the scale of wages and living increased the demand for gold and checked the demand for silver. The operation of a proper treasury redemption system would disclose from time to time the demand for either metal, and the coinage of silver could be enlarged or suspended as the demand for it rose or fell. If silver gradually fell into disuse by a rise in the scale of wages and national wealth, the suspension of coinage could be continued indefinitely, as at present in the countries of the Latin Union, and all increments to the metallic circulation would be made thereafter in gold.

Perhaps the most interesting deduction to be drawn from what has preceded relates to the provision to be made for their future monetary systems by Mexico and China. Mexico lingers almost alone under the domain of the silver standard, and her merchants, as a result, suffer from all the fluctuations in exchange and the timidity in the entry of foreign capital which have marked the recent history of other countries which have hesitated to adopt the gold standard. By means of the limping standard it is possible for Mexico and China to

adopt a gold basis for their currency without imposing any serious pressure upon the world's supply of gold or subjecting themselves to a heavy loss in marketing their silver. In the case of Mexico it would only be necessary to adopt a new gold coin representing about the present gold value of the Mexican silver peso, and to substitute for the peso a new silver coin of about the same weight as the old. Mexico is in an unusual position in respect to her silver pesos in that they constitute the circulation of China, the Straits, and other parts of the Orient. She could not afford to give a fixed parity to her old coins, because if this parity were even a fraction above the gold value of the coins she would have to deal, not only with her own circulation, but with that of the entire East. If she offered to exchange gold for silver, or even to receive the old coins at a high gold parity for public dues, she would invite a deluge of silver in exchange for gold with which even the strongest nation could hardly cope. By substituting a new coin for the peso, however, and making only the new coin receivable for public dues and redeemable in gold at the new official ratio, she would avoid the disturbance to wages and prices which would follow the adoption of a new unit or the attempt to raise her existing coins to a gold footing.

In China the possibility of establishing the gold standard would possess the fascination of one of the most interesting experiments ever tried in economic history, worked out upon a field larger than that presented by any other country of the world. It probably would not be advisable for China to undertake for many years to offer gold for silver on demand, but if a distinctive national coinage of silver were established it could be maintained substantially at a gold par. Great quantities of this silver would undoubtedly be absorbed in the interior trade of the country, especially as it developed under the stimulus of Caucasian enterprise. The only points at which the silver coins would come in contact with the gold standard would be at the treaty ports. If they were received everywhere in China, however, for public dues at a fixed gold parity, they would rarely sink anywhere materially below their gold value. The Chinese Government, in regulating the output of new silver coins, would be able to rely upon the fluctuations in foreign exchange at the open ports. Under such a system the fluctuations of exchange might be somewhat wider than between two gold-standard countries, but if the issue of silver was suspended whenever the exchange was unfavorable these fluctuations would probably not be great. It would be possible, moreover, to establish at the treaty ports small gold funds or to sell drafts upon gold funds at London and the other commercial centers of the West. These gold resources could be employed sparingly by the Chinese Government to provide gold for export, and thereby to maintain something like a par of exchange without holding out the offer to give gold to all comers. This would be practically the system pursued by the Bank of France and the government of British India.

The necessary condition of such a system is government control of the coinage. It is this which differentiates the limping standard from free coinage and permits a value to be given to coined money, which is different from its value as bullion, because of the specific demand for coined money as a medium of exchange and in the execution of legal-tender contracts. The importance of this principle, that limitation of the quantity of a commodity in the face of a given demand will raise the value of the commodity, has too often escaped the attention of the advocates of unlimited issues of silver and of government

paper. Just so much currency as is needed for use at its current value will be absorbed by the community without depreciation in its value. In the case of money, when the quantity exceeds the complex demand depreciation in value sets in, first, in the rate paid for the rental of money, which draws the surplus abroad to earn higher returns if the money is of a sort accepted everywhere; and second, in the depreciation of its exchange value if the excessive quantity continues to confront only a limited demand. Government control of the tools of exchange involves dangers which are not to be lightly put aside; but under such a system as is here proposed there would be little temptation to issue token coins in excess of the demand, because the profit would not be large, and the penalty would be swift in coming, and glaringly plain to the public, in the flight of gold, and the imminent risk that the par of exchange would be broken with all other commercial nations.

In some such system as this, which links silver to gold by measuring the value of the cheaper metal in the dearer, is to be found the most scientific and the most practicable solution of the monetary problems of the future in the countries which are being opened to the influences of Western civilization. The difficulties of wide fluctuations in exchange are swept away, or at least greatly minimized, without imposing upon either the gold or silver countries of to-day a system ill adapted to their domestic needs. It was declared by the British gold and silver commission of 1888:<sup>a</sup>

"Everything which hampers complete freedom of intercourse between two countries, or which imposes on it any additional burden, is undoubtedly an evil to be avoided or removed if possible. If, therefore, a remedy could be devised to accomplish this end without involving the risk of other disadvantages, there can not be two opinions that it would be worth while to apply such a remedy."

To this declaration Major Darwin makes the addendum that "either bimetallism or universal monometallism would, without doubt, effect a complete or almost complete cure, and the question in each case is whether the remedy is practicable, and whether its accompanying disadvantages do not outweigh its undoubted merits."<sup>b</sup>

The "accompanying disadvantages" have thus far proved too serious to permit the extension of a pure gold currency or of bimetallism throughout the world. The experience of British India and the plan adopted by the United States for the Philippine Islands point the way for another solution of the problem more in harmony with local conditions in all countries and with the historical evolution of money. This system not only affords a uniform monetary standard for foreign trade among all nations, but has many of the advantages attributed by its advocates to bimetallism in compensating the scarcity of gold by opening the reservoir of the world's supply of metallic money to the steadying current of silver, with the limitation, however, only that the sluice gates may be closed if the new current threatens to raise the common stock above the level of safety and to spread ruin over the fertile fields of commerce by driving the standard metal from the reservoir and supplanting it with the more volatile.

CHARLES A. CONANT.

NEW YORK CITY.

<sup>a</sup> United States Senate Mis. Doc. No. 34, Fiftieth Congress, second session, p. 85.

<sup>b</sup> Bimetallism, p. 133.

## APPENDIX M.

### EDITORIAL ARTICLES ON THE WORK OF THE AMERICAN COMMISSION.

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#### THE PHILIPPINE, CHINESE, AND MEXICAN CURRENCIES.

[The London Statist, Saturday, June 20, 1903.]

It will be in the recollection of our readers, no doubt, that some little time ago President Roosevelt sent to Congress certain applications from the Governments of Mexico and China, requesting the American Government to assist in bringing about certain reforms contemplated by the two Governments, and, as the American Government at the same time was contemplating a reform of the Philippine currency, it undertook to do so, and it recommended Congress to pass such legislation as would enable it to give the assistance required. In consequence of the legislation which followed a commission appointed by the President is at present in London and is discussing with a commission appointed by our own government certain proposals which are of much interest. The American Commission consists of three members: Mr. Charles A. Conant, treasurer of the Morton Trust Company, of New York; Mr. J. W. Jenks, professor of political science at Cornell University, and Mr. Hugh H. Hanna, lately attached to the Indianapolis monetary commission. The British Commission consists of five members: Sir James Mackay, member of the India council; Sir Ewen Cameron, manager of the Hongkong and Shanghai Bank; Mr. Robert Chalmers, principal clerk of the treasury; Mr. Blain, first-class clerk of the treasury, and Mr. George W. Johnson, of the colonial office.

#### THE FIRST PROPOSAL.

It need hardly be said that the American Commission does not propose anything in the nature of international bimetallism. That has passed completely out of practical politics. Neither does it propose any union such as the Latin Union, of which France is the head. It recognizes the various objections to such a union as that, and apparently it does not wish the United States to entangle itself in an arrangement which might be upset by the withdrawal or breakdown of one of its members. Its proposals are less ambitious and more businesslike. In the Philippines the American Government is carrying out an arrangement somewhat similar to that effected in India in 1893; but, whereas the Indian plan fixes the sterling value of the rupee at 1s. 4d., the Philippine proposal is that the future silver coin which is to circulate in the Philippines shall bear the proportion of 32 to 1 of gold. Now, as the question of altering the currency of the Straits Settlements is under the consideration of our own Government, and as the French Government also is considering the expediency of an alteration in the currency of the French Far Eastern possessions,

the American Government naturally considers that it would be a great advantage if the United Kingdom and France should unite with it in adopting the same proportion of silver to gold as the United States itself is adopting in the Philippines. The American Commission recognizes at the same time that it would be unreasonable to ask the Indian government to make any change in its own system. The Indian government studied the matter for a long time. It has been a tedious and a costly thing to carry the alteration into effect, and it would be unreasonable to ask the Indian government to alter what it has effected after so much trouble and expenditure; but in the Straits Settlements, and in other British territory in which a change may be made, it is not unreasonable to ask our Government to meet the wishes of the United States Government as far as may be. Presumably China and Mexico will fall in with the views of the American Government, and if they do we see no reasonable objection to meeting the American Government in the friendliest possible spirit. Indeed, it would be for the advantage of the Straits Settlements that every possible inducement for false coinage should be got rid of.

#### THE CHINESE CASE.

The measures suggested to be taken by Mexico do not much concern us. Our Government naturally will cooperate with the United States Government as far as it possibly can in this, as in other matters, but its interest in the question, excepting so far as we all desire to aid the United States where we can, is but small. The proposed change in China is different. That is a matter in which British interests are largely concerned—quite as much concerned, evidently, as American interests. As our readers know, China has no national coinage. There are some local mints, but an imperial coinage or an imperial coinage law does not exist. The suggestion is that China should institute a coinage of her own; that the standard of value should be gold, as in India, but that the actual coins in circulation should consist of silver. It is obvious that China is too poor and backward a country to adopt a gold circulation, and as no one now will agree to a purely silver coinage, the proposal is, perhaps, as good as any that can be put forward, and it would obviously be for the benefit of trade if there was one standard money protected as far as may be from violent fluctuations in value. The American Commission proposes that, practically, the plan which has succeeded so well in India should be followed in China; that the silver token pieces, which should circulate like the rupee does in India, should bear the proportion of 32 to 1 to the gold-standard piece; that the stability of the system should be guaranteed by the maintenance of a gold reserve, and that by operating on this gold reserve, as in the case of India, the quantity of the circulation should always be kept nearly to the requirements of the country. But it is foreseen that the Chinese Government, in and of itself, is not powerful enough to establish such a system. In the first place, China has now piled up so much debt that it is open to question whether China will have a sufficiently favorable balance of trade to maintain the stability of the suggested system. In the second place, it is open to doubt whether China alone can maintain a sufficient gold reserve.

Therefore it is desirable that the powers should give assistance to China in carrying into execution the proposed system. One of the ways in which such assistance can be given is by agreeing to take pay-

ment for the indemnity in silver. We of this Journal have always been in favor of the payment of the indemnity in silver. The American Government has agreed to take its own portion of the indemnity in silver, and it is understood that our own Government is prepared to follow suit. It is much to be regretted that the Government did not insist upon the point with the other powers. However, that is done, and can not be undone. The point now is, Can the United States and the British Government induce the other governments to take payment of the indemnity in silver? They would get an equivalent, for a good monetary system would help to develop Chinese trade and Chinese credit. But it is to be recollected that Russia, Germany, and France have all borrowed already in anticipation of the indemnity to be received from China; and the question is, Will they voluntarily reduce the indemnity? No doubt there are ways in which they might be induced to do so, and certainly it is well worth making the attempt to induce them. We hope, therefore, that our Government will meet the wishes of the United States Government frankly and freely, and will use all its influence with the other governments to get the proposal accepted by them. There are other points under discussion, as, for example, the appointment of a commission to regulate the new coinage. But we need not go into that now. Evidently it is to the interest of every power trading with China to assist in bringing about a satisfactory solution of the problem.

#### THE GOLD STANDARD FOR CHINA.

[New York Sun, Monday, October 26, 1903.]

The report of the Commission on International Exchange, of which an abstract is printed this morning, proposes an important step for the extension of American trade and opportunity in the Orient. The Commission was appointed under general authority of Congress to take measures to secure stability of exchange between the money of the gold countries and the money of those countries now using silver. As the request for the cooperation of the United States in the matter came from Mexico and China, it is those countries to which the Commission has first given its attention. Mexico is quite competent to frame her own monetary laws, but she desired to consult the European powers on the means of establishing a uniform national currency in China at the same time as its establishment in Mexico or soon after. The European powers were consulted by Mexico and the United States largely because of the fact that China is under financial obligations to them. Even if this were not directly the case, China would hardly be permitted to take an important step affecting foreign trade of her own motion and with the support of a single power.

The mission of the Mexican and American Commissions in Europe, therefore, was to clear the ground of national jealousies and diplomatic obstacles for intelligent action by China under American guidance. According to the report of the Commission, their efforts in this respect were eminently successful. Special Commissions were appointed in Great Britain, France, Germany, and Russia to confer with the American and Mexican Commissions. They were a little suspicious at first, judging from some of the reports received at the time, that the United States were on another quest for the opening of the mints to bimetallism. When they learned that this was not the

case and that the proposals of the American Commission were essentially monometallic, they promptly gave approval to its purposes and programme. All of them adopted resolutions or reports declaring in favor of the principle of introducing the gold standard at the earliest practical moment into China. This does not mean that gold coin will circulate in large amounts in China, but it means that the copper and silver coins shall be kept at a rigid relation to gold, just as is the case with our own.

The method for maintaining the gold standard in China will be similar to that which has prevailed for some thirty years in the Netherlands and Java, which has recently been applied on a great scale in British India, and has been adopted by the United States for the Philippines. Wages and business transactions are on too small a scale among the Chinese to permit the large use of gold coin, but this does not preclude putting their money on the gold basis and thereby bringing them into harmony with the monetary systems of the advanced commercial nations.

Since the approval of the purposes of the Commission in Europe, Prof. Jeremiah W. Jenks, one of its members, has been directed by President Roosevelt to proceed to China to discuss the details of the plan with the Chinese Imperial Government. He will undoubtedly encounter difficulties, but the progress made thus far encourages the belief that these difficulties will eventually be surmounted.

Even if the difficulties of putting China on the gold standard were much greater than they now appear, the time has come for making the trial. The extreme fluctuations of silver during the last few years, which have carried it down from 30½d. per ounce to 21 $\frac{5}{16}$ d., and then up again recently to 28½d., have almost paralyzed trade between China and the gold-standard countries. Such fluctuations at least tend to convert legitimate trading into gambling, because the merchant who imports goods from gold-standard countries to be paid for in gold can never tell from week to week whether the silver prices he receives will yield him a handsome profit or leave a big loss.

It is this sort of evil which the American and Mexican Commissions are seeking to remedy, and it is of vast importance that their mission succeeds. Success means that goods can be exported to China from all the gold-standard manufacturing nations with certainty as to the return to be received for them in gold, and that money can be invested in China with the assurance, so far as the monetary system is concerned, that it can be converted back into gold without the loss of 25 to 30 per cent, which has been possible under recent conditions in both China and Mexico.

It is needless to say that with the severe struggle of the manufacturing nations for new markets for the great surplus of machine-made goods which are constantly being turned out from their factories, the opening of China by the extension of railways throughout the Empire and the adoption of a currency based upon the gold standard will be an event of cardinal importance.

So far as the project succeeds, it means the solution for a generation of the problem of new openings for goods and capital, and perhaps even the relaxation of the severity of the competition which now prevails between the manufacturing nations of Europe and America.

## THE WORLD ON A GOLD BASIS.

[The Wall Street Journal, New York, October 26, 1903.]

The report of the American Commission on International Exchange, composed of Hugh H. Hanna, Charles A. Conant, and Jeremiah W. Jenks, to the Secretary of State has been made public. This report is of large interest and importance, inasmuch as it gives an account of the satisfactory progress which has been made toward the establishment of the silver currency of Mexico and China upon a gold-standard basis. The importance of this to the commerce of the United States may be appreciated when it is stated that the adoption of a stable exchange between the silver currency of China and the money of the gold-standard nations would unquestionably stimulate the importation into China of the products of American and European mills. This was the experience of Russia and Japan when they adopted the gold standard. In the case of Russia, imports of foreign goods increased 50 per cent in ten years. In the case of Japan, the imports increased about 200 per cent. The American Commissioners estimate that if the ratio of imports of foreign goods into China should be equal to that of Japan, a market would be opened for \$400,000,000 worth in American gold in the products of Europe and America in addition to the present volume of their trade in China. Such a result as that is well worth the effort which has been put forth by the American and European commissioners appointed to draft a plan for the introduction of the gold-exchange standard into the silver-using countries.

## MONETARY REFORM IN CHINA.

[Boston Herald, Monday, October 26, 1903.]

The report made by the Commission on International Exchange, consisting of Messrs. Hugh H. Hanna, Charles A. Conant, and Jeremiah W. Jenks, who have been in personal conference with commissioners appointed by the Governments of Great Britain, France, Holland, Germany, and Russia, in an endeavor to arrange a stable basis of currency on a gold-exchange standard for China and other silver-using countries, is an exceedingly interesting statement. This Commission was appointed by our Government at the request of the Governments of Mexico and China. The currency relations between Mexico and China have been peculiarly close, for the reason that for many years past Mexican silver dollars have formed the basis of the circulation of the Chinese Empire, the Chinese permitting Mexican dollars to take the place, both in national and international trade relations, of a currency of their own. But the Governments at Mexico and Peking having come to the conclusion that it was necessary to change their currency systems, the Government of the United States was requested to use its good offices for the purpose of enlisting the support of the commercial nations of Europe in this general plan of currency reform.

The Commissioners appointed to carry out this inquiry, in association with delegates appointed by the Mexican Government, had long and satisfactory interviews with those designated by the governments of the countries we referred to above to meet and confer with them. The results of these conferences are reported to be highly satisfactory. The disadvantage of the present system in China, as well as Mexico, countries of South America, and colonies and dependencies in Asia, is the fluctuation that is from time to time taking place in the gold value

of silver. This greatly embarrasses importation, because the importer who has to pay for his purchases in gold can never be certain that a sudden fall in the market price of silver bullion will not convert a possible profit into a certain loss. For a similar reason the investment of money by the capitalists of gold-using nations in those countries which are on a silver basis is made exceedingly precarious, the result being that a large part of the industrial developments which would otherwise take place is prevented.

The plan which our Commissioners presented provided for the adoption by China of a monetary system not greatly different from that which we have recently introduced into the Philippine Islands. As silver and copper are about the only coins that enter into the ordinary business transactions in China, the plan proposed was to have the greater part of the coinage restricted to the issuance of silver coins, which, however, would have a fixed redeemable value in gold established by the willingness of the Imperial Government to redeem them in gold on their issued basis whenever they were presented. The ratio proposed is 32 to 1, this giving to the silver coin a value somewhat in advance of its value as bullion, but not so great a value as would lead in a country like China, where Government control in certain respects is quite lax, to the coinage of silver bullion by those wishing to take a dishonest advantage of the opportunities thus offered.

Under this plan the Government control of the amount of the issues of silver would be such as to keep them within the demands of trade for legal-tender money. While at first the use of this currency might be limited to a few of the principal provinces on the seaboard, it is the belief of the Commission that it could by degrees be gradually spread through all of the provinces of the Empire, and, while at first the legal-tender character of the currency would be confined to the payment of Government taxes and duties, after a short time it might be made legal tender in all trade transactions. In order to maintain the gold exchange standard of these silver coins it is proposed that the Chinese Government shall keep on deposit in the principal financial centers of the world a sufficient supply of gold, to be drawn upon at any time when the demands of business make such drafts essential in the settlement of trade balances, the Government participation in the exchange business being, however, limited by having its rates fixed above those established by the ordinary dealers in exchange.

The plan of the Commission contemplates the appointment by the Chinese Government of a comptroller of its currency, with certain subordinates who are to have general charge of the monetary system of China, those thus appointed to be foreigners, and to carry on their work under the reasonable inspection of the representatives of the treaty powers. For the purpose of facilitating such a change, our Commissioners further propose that the treaty powers shall make temporary concessions in the indemnity which China now has to pay growing out of the Boxer rebellion, to enable the Government to provide the funds required to purchase bullion for its silver coinage and to establish foreign gold deposits.

As we said above, the plan in its general features seems to have met with gratifying approval. There have been differences of opinion expressed as to some of its details. Some of the Governments believe that the method to be adopted in China should consist in issuing the proposed silver coins and afterwards giving to them a fixed gold exchange value, while others believe that the gold standard of value should be established simultaneously with the general issue of these

silver coins. There is also some difference of opinion concerning the concessions suggested in the Boxer indemnity payments; but, on the whole, the recommendations of our Commissioners have been received with marked favor. When it is taken into account that when Russia adopted the gold standard her imports increased 50 per cent in ten years, and that when Japan changed its currency system to a gold basis the increase in its import trade in ten years was 200 per cent, the International Exchange Commission believes that it is justified in predicting that a similar change made in China would tremendously increase the foreign trade of that country, leading to the sale there each year of scores of millions of dollars' worth of foreign merchandise, in the supplying of which our country could not fail to have a generous share. The Commission is to be warmly congratulated on the success that has attended its mission, and we sincerely hope that if, as is now proposed, the effort is to be made to give to the suggestions practical effect in China, it will meet with equal success.

### CHAT ON 'CHANGE.

[Daily Mail, London, Wednesday, July 29, 1903.]

As in one financial center after another support is given to the proposal put forward by the Mexican and other governments for effecting stability of exchange in silver-using countries, it is becoming only a matter of a short time before some definite announcements are made of a scheme. The great thing has been to get the principle accepted. Undoubtedly the silver-using countries, in spite of the fact that the depreciation of that metal fosters their own export trade, have been driven to accept the new ideas partly by reason of the increased burden involved in meeting their loan obligations abroad and partly by the fact that capital will not be freely encouraged to enter silver-using countries when there is a possibility of a good portion of it being lost through depreciation of the metal.

The position can be explained in a few words. A capitalist sends into a certain silver-using country £1,000, and earns the equivalent of 10 per cent on his money. That is an inducement, of course. But silver depreciates, say, from 25d. to 20d. per ounce. The result is that if he were to convert his money back again into gold the capitalist would lose a fifth of it, for the silver which represents his £1,000 has fallen in the gold equivalent to £800, and similarly his interest, instead of working out at 10 per cent, only works out at 8 per cent. While the fall in silver goes on there is naturally continued fear for the safety of capital, whether sunk in railroad enterprises or anything else. If capital is to be encouraged, its safety must be assured.

There are, of course, present difficulties in the way, such as what is to be done with the Mexican currency circulating in foreign countries. But if the principle of the stable exchange is finally accepted, the wits of the financiers who have the matter in hand should be equal to solving these secondary problems.

### TO MAKE THE GOLD STANDARD UNIVERSAL.

[Philadelphia Inquirer, October 27, 1903.]

The report of the Commission appointed at the request of Mexico to consider the silver question was published in our columns yesterday. It is an important document, showing conclusively that there is not

the slightest sentiment in the civilized world in favor of any but the gold standard. Bimetallism, as generally understood, is dead. The only question involved is an adjustment to be made by nations which must continue to use silver very largely at home and yet must do a large amount of business with outside nations having the gold standard.

This is the situation in Mexico, China, and other Eastern countries. Mexico realizes the situation and wants a basis of exchange settled so that she may conduct foreign commerce without the great risks incident to the extraordinary fluctuations in the value of silver bullion, such as have taken place in the recent past, to the great loss of business men and the gain of bankers, who have always allowed a liberal margin in exchange. China is in a different position, as she has no national currency system at all and has taken no steps to get one. The other nations are doing missionary work for her, and may result in getting her into line with the rest of the world.

The recommendations are in line with our own policy in the Philippines, where we have established a ratio of 32 to 1 between silver and gold for domestic purposes, which ratio is maintained by gold reserve somewhat after the manner of maintaining the value of greenbacks at home, but with the added advantage that the purchase and sale of exchange affords a lever to maintain the price of silver tolerably well and to permit of foreign trade on a fixed basis. A merchant of this country dealing with China is open to great disadvantage. That country is on a silver basis and pays in bullion. Variations in price of the latter have been so great that it has frequently upset all calculations. By establishing the above ratio the exchange question would be settled to an extent by the amount of bullion bought for coinage, graduating purchases so as to prevent too great fluctuations. With this as a universal practice in the silver-using countries it would be possible to make silver tolerably stable and would be a great advance over present conditions.

The main question at hand is whether this system should be adopted at once or the gold guaranty come gradually. This latter is of less importance just now than the question of China's adherence to the scheme. It is idle, in view of past history, to expect China to move quickly, but if once she sees how greatly it will inure to her advantage it is to be hoped she will fall in line.

One thing is certain: Bryanite bimetallism is as dead as Julius Cæsar. The present plan is distinctly artificial and temporary, but is necessary. In the future we may expect to see the gold standard established the world over without qualification.

In this connection it is interesting to learn from a magazine article by Ambassador White, just published, that Judge Kelley, of this city, the great champion of bimetallism, really became unconsciously its greatest enemy. Through Ambassador White, Kelley had a long and confidential interview with Bismarck, in which the latter showed himself an ardent bimetallist anxious for the reestablishment of the double standard. Unfortunately, Judge Kelley published an article on his return to America giving Bismarck's views, which so angered the latter that when this Government sent a commission to discuss bimetallism with the various nations Bismarck positively refused to see the members, and the warm aid of Germany, so confidently expected, was withheld. On the whole, we may consider this as fortunate, but it is an interesting incident now that the whole subject has been thrashed out and settled.

## PRACTICAL BIMETALLISM.

[Sioux City (Iowa) Journal, November 28, 1903.]

The International Exchange Commission, which returned recently from a visit to the European capitals, has filed its report with President Roosevelt, and the substance of the report has been made public. The Commission was appointed by the President last spring, with the authority of Congress, in response to a request from Mexico and China that this Government should take measures to secure a permanent relationship between the moneys of gold and silver using countries. During the summer the Commission visited the capitals of Great Britain, Russia, France, Germany, and the Netherlands. So far, no government has been committed to any plan for bringing about the desired result. President Roosevelt will lay before Congress the information secured by the Commission, and it will rest with Congress to decide whether further action shall be taken.

The Commission found no difficulty in interesting the foreign governments in the proposition submitted. There was unanimous acceptance of the principle that it would be to the advantage of all the nations engaged in world commerce if the moneys of the silver-using nations could be given a fixed exchangeable value with gold. The American Commissioners argued especially in favor of such an arrangement in China, but it was also urged that the European nations apply the principle to coinage in their dependencies, with the view of eventually making possible the transaction of all international business practically on the gold basis. The system of coinage adopted by the United States for the Philippines was pointed out as an object lesson in this direction.

The American Commissioners report that on the main point there is unanimity of sentiment. All the governments consulted acknowledge the desirability of establishing a gold-exchange monetary standard in the silver-using countries. It is admitted that such a policy will make for the economic progress of the countries directly affected and will facilitate profitable trading between the gold and silver using nations. There is agreement also that such a system must provide for the continued extensive use of silver coins, to conform to long-established custom and existing scales of value. There is unanimity of opinion also as to the necessity for discontinuing the free coinage of silver and letting the state control the quantity of silver coined, in order to give it a fixed relation to gold. That makes the agreement unanimous as to general principles.

In regard to the application of the principle specifically a slight difference of opinion developed. Germany, the Netherlands, France, Mexico, and the United States declared in favor of issuing the new currency at the outset at a fixed gold ratio, presumably that of 32 to 1, which now prevails in the Philippines. Great Britain and Russia declared in favor of beginning on the silver basis and, after establishing a uniform currency on that basis, giving it a fixed relation with gold. The question at issue is merely a matter of expediency, with the probability that the plan favored by the majority would prove the most satisfactory. However, it is admitted that either plan would offer improvement over the existing situation, which leaves the oriental currency open to constant fluctuations of value. On the question of ratio all the nations except Russia accept 32 to 1 as the ratio upon which it is advisable to make silver exchangeable with gold. Even Russia admits that ratio would do for China, but suggests that

in other countries economic needs and local monetary conditions might make a different ratio desirable.

The question now to be discussed is whether the interested nations shall proceed to a combined effort to effect the important reforms proposed. The differences over details are not irreconcilable, and if all the nations have been in earnest in subscribing to the general principle there is no reason why an international monetary conference should not undertake the task. The immense value to the commercial world of facilities for transacting world commerce by means of a uniform and stable currency system should make the game worth the candle.

### THE ORIENT AND THE GOLD STANDARD.

[Chicago Post, October 27, 1903.]

There has been much unintelligent and unfair criticism of the purpose and work of the Commission on International Exchange, which was appointed early in the spring in response to a request from the Governments of Mexico and China. These Governments desired the cooperation of the United States in the promotion of measures tending to restore and maintain a fixed relationship between the money of the gold-standard countries and the money of the silver-using peoples. Some jumped at the conclusion that the move meant a revival of schemes for international bimetallism, and either denounced or ridiculed the appointment of the Commission.

As a matter of fact the business of this body was not the conversion of gold-standard countries to bimetallism, but the conversion of silver-standard countries to the doctrine of a circulation based on the gold standard. Its general proposition to the powers visited was that the adoption of a gold-exchange standard by oriental countries and colonies would greatly contribute to their economic progress. Surely American sound-money advocates will readily indorse this suggestion. And they will naturally rejoice to learn that its soundness was acknowledged by every finance minister to whom the subject was presented by the Commission.

But what are the silver-using countries expected to do? The Commission says in the report just published: "There was agreement upon the principle that such a system must involve the continued large use of silver coins in order to conform to long-established customs and existing scales of values, but that free coinage of silver should be suspended and the determination of the quantity of the coins taken under the control of the State, in order that measures might be promptly taken to give them a fixed relation with gold."

Several questions arose upon the acceptance of this fundamental proposition. First, should the gold standard be established at the beginning, or should it come after the introduction of a uniform national currency upon the silver basis? Second, what should be the fixed ratio between the silver in circulation and the gold unit? As to the first question, the Commission tells us that "upon the part of five powers—Germany, France, the Netherlands, Mexico, and the United States—there was agreement that the best method was to begin the issue of the new currency at a fixed gold par, while upon the part of Great Britain and Russia there was a disposition to favor the view of first supplying the country with a uniform currency and then giving it within a short interval a fixed gold value."

With regard to the ratio all powers agreed that 32 to 1 corresponded to actual economic conditions and would prevent the exportation of

the coins by the rise in the price of silver. At the same time Russia contended that each country should be allowed to fix its own ratio. This would neutralize to a considerable extent the advantages of the whole reform. As no action has definitely been promised, there is room for further discussion. China is not likely to hurry. The gospel of strenuosity has scarcely touched her. We hope to convert her in time.

### IMPORTANT MOVEMENT.

[Buffalo Express, October 28, 1903.]

The excellent work done by the Commission on International Exchange, which has just made public its report in presenting to the powers the necessity for a gold standard in China, should be gratifying to American commercial interests. This Commission was appointed by President Roosevelt last spring in response to an invitation from Mexico and China to take up the matter. It was accompanied on its European mission by a committee of Mexicans, who participated in the conferences with representatives of foreign governments.

It was not expected that the conference would do any more than to obtain the views of the gold-standard nations on the subject of creating stability in international exchange. All the governments approached heartily supported the general proposition. The only important disagreement was as to the time when China should make the change. The commissioners for the United States, Mexico, Germany, France, and the Netherlands believed that China should go on a gold basis at the same time the movement was started to establish a uniform currency system in that country, while the commissioners for Great Britain and Russia thought it would be advisable first to establish uniformity in the currency and make the change to the gold standard as soon thereafter as practicable. It is obvious that the creation of a uniform currency system in China will be attended by many difficulties. It seems equally plain that the creation of a gold standard would not add materially to the perplexities—that is, it would not cause enough additional trouble to offset the manifold advantages which China and the great commercial nations would derive from the establishment of such a standard.

In its report the Commission points out that if the uncertainties in international exchange could be eliminated trade with China would probably grow very fast. At the beginning the increase would be due to the investment of foreign capital in China rather than to an increase in the consuming power of the people themselves. Later the consuming power would develop. The results of a change to the gold standard in Russia and Japan are cited. In the case of Russia imports rose from a value of \$210,000,000 in 1890 to \$315,000,000 in 1900, while the respective figures for Japan were \$40,000,000 and \$150,000,000. It is not to be expected, however, that the showing for China would be as favorable as for either of these countries, but there is no question that the change would be important. It is for this reason that manufacturers in all gold-standard countries should approve the work of the Commission and do all they can to further the movement. There is no desire on the part of any of the Commissioners to interfere in any way with the silver market. They are working for the encouragement of international trade in all branches.

## STABILIZATION OF EXCHANGE.

[The Providence Journal, Monday, October 26, 1903.]

The members of the American Commission on International Exchange, a synopsis of whose report to the Secretary of State is printed elsewhere in this paper, give good reasons for their contentment with the results of their conferences with the representatives of European governments during the past summer. The object of the Commission, it may be recalled, was to induce the other leading commercial nations to join the United States in giving moral encouragement, and such practical assistance as may be feasible without getting into troublesome entanglements abroad or jeopardizing domestic interests, to the establishment of a gold exchange standard for silver-using countries, whereby those countries, still retaining the use of a silver coinage which they can not dispense with, may stabilize exchange between themselves and countries which have the gold standard—in other words, may permanently maintain that coinage at a fixed gold par above its bullion value.

This object has naturally met with the general approval of the nations approached. "The character of these approvals," we read in the report, "warrants the statement that the work of the Commission up to this time has been entirely successful." Differences of opinion in regard to details have of course arisen, and the form in which the ultimate opinions of the various national representatives were expressed has also differed. But it appears that all the nations are agreed as to the commendableness of the main purpose and that five of them—Germany, France, the Netherlands, Mexico, and the United States—agree that the best method of procedure is to begin the issue of the new currency for the silver nations at a fixed gold par, while two of them—Great Britain and Russia—favor beginning on a silver basis, with the view of first supplying the countries with a uniform currency and then giving it within a short time a fixed gold value. With such encouraging assurances the Commission is amply justified in sending one or more of its members to China to lay the proposition formally before the Peking Government. Mexico seems able and willing to go ahead with the work of stabilization in her own case without any further solicitation or assistance; a project of law is already in preparation there which contemplates the adoption of the gold exchange standard and it will probably be enacted at the present session of the Mexican Congress.

What is there in this movement for us? This is a question which will of course be asked in the United States, where the majority of the people are apparently so indifferent to their own domestic monetary deficiencies that they can with difficulty be made to see the importance of reform suggestions for other countries. In reality there is much in it for us if the exchange standard of silver-using countries can ultimately be stabilized. For one thing, what it is now proposed that Mexico and China shall do is essentially what we ourselves are trying to do in the Philippines, and we can not be indifferent to the assistance which would be given us by the wider adoption of the same plan by other nations as it has already been adopted by the Dutch in the East Indies, the Russians in Bokhara, and the British in India, and as it is about to be adopted by Britain for the Straits Settlements and France for Indo-China. The larger the number of governments that are directly interested in the maintenance of considerable volumes of silver coin at a fixed parity with gold the easier must be our task in

our Pacific dependency, as also, in a way, in our own land, where silver is likewise practically a token coinage.

But beyond this and more important is the commercial benefit which must follow the stabilization which is aimed at. In that benefit we should share with the leading manufacturing and exporting nations of Europe, whose interest in the project has doubtless been chiefly aroused by this consideration. The present uncertainties, due to fluctuations in exchange, in regard to the profits on commercial operations between gold countries and silver countries are a hindrance to trade which everybody can understand. Remove these uncertainties by the establishment of a stable rate of exchange and importations from gold countries like the United States into silver countries like China would inevitably be greatly increased. If there were any doubt of this it would be dispelled by the experience in the cases of Russia and Japan when they adopted the gold standard. Russian imports rose in value 50 per cent in the ten years between 1890 and 1900; Japan imports 200 per cent in the same time. A corresponding ratio of increase would within ten years open a market for \$400,000,000 worth of European and American products in China. That is something worth trying for. It gives us an obvious interest in the efforts of the Commission which is seeking to establish the conditions for so promising a commercial opportunity.

#### TO STEADY GOLD EXCHANGE.

[New York Times, Monday, October 26, 1903.]

Early this year a Commission, consisting of Messrs. Hugh H. Hanna and Charles A. Conant and Prof. Jeremiah W. Jenks, was sent out by the Department of State to discuss in the capitals of Europe the introduction of the gold exchange standard into China and other silver-using countries. They have just made their report to the Secretary of State.

The Commission is an able and authoritative one. Mr. Hanna is well known for the excellent work he has done in promoting the adoption of the gold standard in the United States and in advocating reform of the currency. He is chairman of the committee of the monetary conference to which the sound financial legislation of the first term of Mr. McKinley is due. Mr. Conant is the treasurer of the Morton Trust Company and a writer of high reputation on matters of finance and currency. Professor Jenks holds the chair of political economy at Cornell University. The appointment of the Commission was suggested by the application of the Governments of Mexico and China for cooperation on the part of the United States in securing the general adoption of a policy that would steady the value of silver in relation to gold, maintain reasonable stability in the rates of exchange between the silver countries and the gold countries, and forward the adoption of the gold standard in countries not now having it. The American Commission, accompanied by a commission from Mexico, visited the capitals of Great Britain, France, Holland, Germany, and Russia, and were in each case met by commissions from these Governments. They report a general agreement as to the desirability of the objects sought and the principles on which it was suggested that they should be pursued. No definite policy was proposed, but there was free and thorough discussion of what might be accomplished and the means suitable.

The suggestions as to the introduction of the gold standard in China,

as in other silver-using countries, involved the adoption of silver coins to be kept at par with gold by means of the following three measures, which are the essentials of the policy of the Dutch East Indies, of that of the United States in the Philippines, and of that about to be put in force in Mexico, in the Straits Settlements by Great Britain, in Indo-China by France, in Bukhara by Russia, and in Peru:

1. Government control of the amount of the issues, so as to keep them within the demands of trade for legal-tender money.

2. Acceptance of the coins at their legal value for public dues and private debts.

3. The sale of drafts at or near par upon gold-exchange funds kept at the financial centers of the world.

That silver coinage can be kept in circulation at par, though its bullion value is less than par, provided that the volume is sufficiently limited, is shown plainly in our own case. The other difficulty which may present itself is the rise in the bullion value beyond the face value, when the coin will tend to go to the melting pot. The prevention of this suggested by the Commission is the suspension of purchases for purposes of coinage when the price tends to rise too high, and this, to be effectual, would require a general understanding between all the silver-using governments. With the ratio of 32 to 1, which has been adopted in the Philippines, there would be a margin for possible rise from present values of about 15 per cent, and it is the opinion of the commissioners that a general understanding with the other governments is not impracticable. The whole scheme is an extremely important one, and the lines on which the Commission has proceeded are very promising. If they can be pursued with reasonable success, the practically universal adoption of the gold standard and the gradual abolition of the evils and losses attendant on fluctuating exchange between the silver-using and the gold-standard countries is within calculable distance.

### STABILITY OF EXCHANGE.

[New York Tribune, Monday, October 26, 1903.]

When Mexico and China made their request last January for the aid of the United States in regulating the fluctuations in the value of silver and establishing a fixed ratio between the currency of the silver-using countries and gold, the Tribune declared in favor of the enterprise, provided it abandoned all schemes of bimetallism and concerned itself with securing a more perfect system of exchange and putting the silver countries on a gold basis without interference with local prices and popular habits by the introduction of gold as the principal circulating medium. This is just what has been done by the Commission on International Exchange appointed by the President in response to the Mexican and Chinese invitations. Hugh H. Hanna, Charles A. Conant, and Jeremiah W. Jenks, the commissioners, have visited the principal countries of Europe, discussed the subject with representatives of Great Britain, France, Holland, Germany, and Russia, in cooperation with the Mexican commission, and have reached agreement with them all as to the desirability of the proposed reform and as to the wisdom of the essential features of their plan.

The report of the Commission to the Secretary of State, a summary of which is published in another column of this issue, is concerned chiefly with the introduction of the gold standard into China. Mexico is expected shortly, on its own motion, to undertake a policy in harmony with the Commission's plan, by bringing its silver circulation

to a fixed parity with gold. This means the adoption of the gold standard without gold circulation, and the transformation of the silver circulation into a token money with a legal value not far removed from its bullion value and exchangeable at a fixed rate into gold for foreign payments. The Chinese problem is more complicated, because there is no national currency now, and only gradually could one be extended beyond the treaty ports. The plan proposed is for currency of silver and copper token money, put at once on a gold basis, though Great Britain and Russia alone among the powers favored, first, a uniform national silver currency, to be brought subsequently to a fixed gold value. The Commission believes that the gold standard, with a silver currency, could be established at the great commercial ports without serious business disturbance, and then the system could be gradually extended in its perfection to other parts of the Empire where there is now no system at all.

The parity of the currency is to be maintained by coining silver solely on government account and strictly limiting the amount to the demands of trade, by the acceptance of the coins at their legal value, first for public debts and then making them legal tender for private debts, and by the sale of drafts at or near par upon gold exchange funds kept at the financial centers of the world. It is not thought that the gold reserve for this purpose need be large. There would be no local demand for gold, and under proper regulations the depletion of the gold stock could be prevented. Any tendency to drain gold could be met by raising the discount rate under fixed rules. Neither need the government obligate itself to sell exchange unless the commercial rate for gold exchange advance 1 per cent or more above normal charges. Then its sales would serve merely to restore the rate and maintain its silver at par. The ratio proposed for China is 32 to 1, as most likely to enable the coinage to be kept at par without any undue burden or drain on gold reserves and at the same time keep the money from being withdrawn from circulation for the arts.

How far the Commission is from any desire "to do something for silver" is shown in the recommendation that when the bullion value of silver equals its legal value government purchases shall cease. This is necessary to prevent loss, but its tendency is to keep silver prices down at least to a fixed figure, since a large market for it is closed when it goes higher.

This proposition is, of course, purely academic. The United States can not give China a monetary system, and it is not intended by treaty or otherwise to modify our own system or assume any responsibility with respect to the currency of any other country. It is manifest, however, that oriental trade would be greatly benefited by stability of exchange. At present all transactions are subject to loss through extreme fluctuations. The plan proposed to remedy the difficulty appears to be perfectly sound. No departure from the gold standard is to be made, but the gold standard is to be extended, and countries which have permitted the free coinage of silver, exchangeable only at its varying bullion value, are to adopt a token money like the silver money of the United States, but without any attempt, such as was made here, by large purchases to maintain an arbitrary price of silver as a commodity. If China wants this system, China, not the United States, must adopt it. But the United States may give sympathy and advice, and it has done a valuable work in securing European agreement on the subject. When China is ready to act, it may be sure that the powers will put no obstacles in the way of a monetary reform which is in the interests of general oriental trade.

## THE STABILITY OF INTERNATIONAL EXCHANGE.

[The New York Journal of Commerce and Commercial Bulletin, Monday, October 26, 1903.]

The report of the Commission on International Exchange, which is made public to-day, necessarily deals almost solely with the question of the Chinese currency. China is the one great silver-using country where the obstacles to be encountered in the establishment of a gold-exchange standard seem almost insuperable, and whether regard be had to the stupendous difficulty of the task or the impressive magnitude of the advantages to be gained, a discussion of the means necessary to accomplish it assumes a character of world-wide interest. It is not only a matter of vital concern to the great commercial nations to have a stable ratio of exchange established with China; it is a question of national self-preservation for China itself to introduce order into the chaos of the currency. The adoption of the gold standard by India, Japan, Siam, the Philippines, the Straits Settlements, and Indo-China makes it certain that in future the whole of the foreign trade of China will be with gold-using countries. When to this fundamental change in their commercial relations is added the still more important thing in their financial relations involved in the creation of a large national debt payable in gold to foreign creditors, the regulation of the currency becomes obviously the most imperative of the duties pressing on the central and provincial governments of China. It was in recognition of this fact that Article II of the new British commercial treaty was made to read: "China agrees to take the necessary steps to provide for a uniform national coinage which shall be legal tender in payment of all duties, taxes, and other obligations throughout the Empire by British as well as Chinese subjects." It was at least a partial recognition of it which prompted the Government at Peking to join with the Government of Mexico in asking the friendly cooperation and support of the United States in an effort to bring about a fixed relationship between the moneys of the gold-standard countries and the silver-using countries. The appointment of the United States Commission on International Exchange was made in response to this request, and the first nine months of its labors must be held to have advanced the problem several steps nearer to solution.

Not the least of the dangers to be apprehended by China from the continued instability of her basis of monetary exchange is the almost indefinite increase of her indebtedness. Should Chinese exports prove insufficient to provide bills for the payment of her gold debts, recourse must be had to the export of silver to make good the deficiency. But if China becomes a seller instead of a buyer of silver, the market becomes at once subject to a new influence of depression and a circle of fatal import to the financial stability of the Chinese Government becomes at once established. That is to say, the lower silver falls the more silver China will have to export; the greater the quantity exported the more silver will fall. Thus, at any moment, an unfavorable turn in the export trade of China might precipitate another downward movement in the price of silver and bring to an acute stage the question of China's ability to continue to discharge in gold the liabilities incurred under the indemnity. But the fact has to be recognized that the immediate effect of the introduction of a new currency system to China would be an addition to the existing foreign debt of the Empire. That is to say, adequate financial resources would have

to be found for the creation of a gold reserve and the preliminary purchases of silver for the new coinage, and these could be provided only by a foreign loan secured by sources of revenue sufficient to yield the amount required for interest and redemption. While the American Commission was not specially authorized to discuss questions relating to the indemnity, it found them almost necessarily forced on its attention, and in visiting the capitals of the powers chiefly interested it took them up with representatives of the department of the respective governments having control of the subject. The essential question presented was whether, in view of the considerably increased burden imposed upon China by the recent fall in silver, the powers would not agree to accept payment of the indemnity on a silver basis for a term of years if the Chinese Government would bind itself to make up the difference at some future time. The Commission found that, with a single exception, there was a disposition to make this concession if it appeared that China would take effective steps, acceptable to the powers, to give stability to her monetary system. Having received on this head all the assurances that were expected, the American Commission did not deem it desirable to go further until the project of a national currency for China had assumed such a definite form as to admit of a precise understanding of the use to which the Imperial Government would put the amounts remitted on the indemnity payments.

As for the outlines of the project submitted, they are, briefly, that the Chinese Government should adopt a standard unit of value of a fixed denomination in grains of gold, to be worth, approximately, the gold value of a tael, or somewhat more than a Mexican dollar, and that provision should be made for the free coinage of gold pieces of five to twenty times this unit. That China should coin, as rapidly as possible, 200,000,000 silver coins about the size of a Mexican dollar, for circulation in the country, and that these should be maintained at par with the standard gold unit at a ratio of about 32 to 1. That both the gold and silver coins should be receivable at par in payment of all obligations due to the central government in any of the provinces, and that the latter may, at its discretion, in conjunction with the viceroys of the respective provinces, from time to time declare the new coins legal tender for debts incurred after a date fixed in the proclamation. The seigniorage profit from coinage should be kept as a separate fund, and provision should be made for a banking law under which bank notes kept at par with the legal-tender currency may be issued by responsible banks under the supervision of the comptroller of the currency. This latter officer is to be a foreigner appointed by the Chinese Government, and should have general charge of the entire monetary system of the Empire. He is to have acceptable associates in charge of the mint, or of such other work as he may prescribe, and his accounts are to be open to inspection by accredited representatives of the powers interested in the indemnity. The only radical divergence between the scheme submitted by the Commission and that which has found favor with other experts consists in the proposal to place the Chinese currency on a gold basis at once, instead of beginning with a silver basis, with the intention of establishing the silver coinage later on a parity with gold. The reasons urged in defense of that position appear to be eminently sound, and present a valuable contribution to the general discussion of the question which is likely to follow the publication of the report.

## INTERNATIONAL EXCHANGE COMMISSION.

[Dun's Review, New York, September 19, 1903.]

So much uncertainty and misapprehension has existed regarding the Commission appointed to investigate the international monetary situation that a brief statement of the facts may have value. In selecting Messrs. Conant, Jenks, and Hanna there was no mistake. It is extremely doubtful whether three better posted students of the subject could have been found. Mr. Conant's writings on financial topics are well known, and his recent appointment to a high office in a prominent trust company emphasizes his practical as well as theoretical fitness. Professor Jenks has occupied the chair of economic study in one of the large colleges, and Mr. Hanna rendered signal service in connection with the monetary convention at Indianapolis in 1898. These gentlemen have spent several months in travel, meeting the leading financiers and legislators of many countries, and increasing their own store of knowledge, while greatly enlarging the interest in the subject throughout the civilized world.

Although frequently alluded to as the Silver Commission, their chief purpose was to extend the gold standard to China and other countries still on a silver basis. Cooperation of leading nations was obviously necessary in order to accomplish the desired result, particularly as to China, where domestic conditions are peculiarly unpropitious, owing to the low rate of wages and general cheapness of commodities, which give gold coin little opportunity for use as a circulating medium. The plan of the Commission was to present to all interested nations the great advantage accruing to commerce of a monetary system in China somewhat similar to that which the United States has arranged for the Philippines. A radical change being out of the question, the arrangement was in the nature of a compromise, looking ultimately, perhaps, to a further improvement. The interdependence of the great nations in their colonial possessions in the Far East and in the trade of those colonies with China made the step more imperative. With this country's financial policy for the Philippines, Great Britain's plans in the Straits Settlements, and the French system in Indo-China, there is closely associated the necessity of similar conditions in China.

As a long step in that direction can be made by putting silver bullion in as steady a position as possible, the proposition was made to the leading governments that wide fluctuations in the price of the white metal might be avoided by regulating the purchases for coinage. Within the past year we have had silver at the lowest point on record, followed by a recovery of over 5d. per ounce at London, which was largely due to buying by this country for Philippine coinage. In order to maintain the compromise silver coin at a ratio of 32 to 1 it is essential that these erratic variations in the silver-bullion market be checked. The American Commission found that leading authorities recognized the importance of this fact, and it was agreed that the difficulty might be obviated to a large extent by distributing purchases of silver for coinage with certain regularity as to quantity and time. In other words, the market would not be depressed by long periods of inactivity and suddenly inflated by an unexpected demand from one of the great nations. If the dealers know that France will buy certain amounts on definite dates, the United States other quantities also at fixed intervals, and similarly for other countries, the natural effect would be less fluctuation in price.

## WORK OF THE UNITED STATES COMMISSION.

[New York Bankers' Magazine, October, 1903.]

The Commission on International Exchange, composed of Messrs. H. H. Hanna, Charles A. Conant, and Jeremiah W. Jenks, have returned to the United States, and some official announcement regarding the results of the work accomplished ought soon to reach the public.

There seems to have been more or less misunderstanding on the subject of their mission, growing probably out of its somewhat technical character and the fact that it differs considerably from that of previous commissions on monetary problems sent to Europe by the United States. Many people have jumped to the conclusion that another effort was being made "to do something for silver" from the bare fact that a commission had been appointed. There is force, however, in the suggestion of one of the members, in a recent communication to the press, that the present body is essentially a gold commission, because its chief object has been to introduce the gold standard into China.

It would be of great economic and commercial importance, as has been several times pointed out by the Bankers' Magazine, if China could be put upon the gold basis. The project is a somewhat novel one, but its discussion has been stimulated within the past year by the adoption of the gold standard in the Philippines and by the violent fluctuations in the gold price of silver. It is these fluctuations which have upset exchange and almost demoralized the trade of China with foreign countries. If the fluctuations of exchange could be cured commerce would be encouraged, loans could be made in China without the present probability of shrinkage in their gold value, and permanent investments would become profitable for the same reason. The Philippine government has taken the bull by the horns, and its new silver currency, issued on a gold basis, is rapidly coming into circulation. The British Government has taken the first steps toward a similar policy in the Straits Settlements by calling in the old coin and preparing for a new one, and the French Government has entered upon the same path in Indo-China.

The adoption of a gold standard in China is a more difficult task than in the dependencies of the European governments, and has seemed to some to be too difficult to be undertaken. There can be no doubt, however, that the tendency of the times is toward gold, and that sooner or later China must follow Europe and America and their colonies in the East if she is to become a progressive commercial country. Even if the solution of the problem proves slow and difficult, however, the American Commission are probably justified in their belief that the time has come to make a beginning.

The point has been several times made in discussing the request of Mexico and China for the cooperation of the United States that they were asking cooperation upon a subject on which independent action each for herself would alone meet the requirements of the case. There are reasons, however, of a diplomatic and economic character which, according to their published statements, governed the American and Mexican Commissions in their negotiations in Europe.

In regard to China the problem presents diplomatic difficulties as well as those of a purely monetary character. If the United States should undertake of her own motion to put China on a gold basis, through the offer of expert advice and financial assistance, it is prob-

able that she would find herself confronted with the opposition, open or concealed, of every other leading power. They would justly feel that any one nation which undertook without consultation to prepare a plan for the finances of China was likely to prejudice the diplomatic and commercial prestige, if not the rights, of other powers. It has been chiefly, we presume, to remove this obstacle that the American and Mexican Commissions have discussed the problem of the Chinese currency in Europe. Apparently they have been successful in their essential object of securing indorsement for the principle of a gold-standard system in China. It does not matter so much whether differences of opinion have developed in Europe over the details, because the details are not likely to be settled until the subject has been much more thoroughly canvassed than it has yet been.

The American Commission has apparently bent its efforts to convincing the European governments that the action of the United States was disinterested, that it would involve important economic benefits to the exporting nations by affording them an easier access to Chinese markets, and that the adoption of a stable standard was practicable. In these objects the Commission seems from all reports to have been eminently successful. Professor Jenks is going to China as the delegate of the American Commission to endeavor to crystallize the progress already made into a definite and workable plan acceptable to the Chinese Imperial Government. While his mission will undoubtedly meet with difficulties and delays, the spirit thus far shown by China and her diplomatic representatives seems to augur well for ultimate success.

Mexico is capable of looking after her own monetary affairs, "without the aid or consent," as Mr. Bryan would say, "of any other nation." Her leading statesmen have practically decided to establish the gold standard. Their desire to discuss the matter, however, with the representatives of other countries is normal and reasonable. There are strong reasons why a certain harmony of action should be secured in the coinage ratio of the oriental countries between gold and silver. Similarity of ratio does not imply similarity of unit, although there seems to have been confusion in some quarters on this point. In those countries which may give a low coinage value to silver, similarity of ratio is desirable in order to guard against the effects of fluctuations in the price of the white metal.

If silver should rise in price above the coinage ratio, then the coins would go to the melting pot and the currency system would be destroyed. To prevent such a disaster in the Philippines, in the Straits, in Indo-China, or in Mexico, the American Commission seem to have taken the ground that a common ratio should be fixed and that purchases of silver for coinage purposes should be suspended in all these countries when that ratio was reached. The suspension of purchases of silver would check the rise in price and maintain the equilibrium between supply and demand. It is within the power of Mexico or any other government of good credit to maintain a token currency far above its bullion value, as is done by the United States and the countries of the Latin Union, but there are strong reasons, which have been urged in Europe, why steadiness in the price of silver, even under the limping standard, contributes its share toward stability of the currency.

Mexico has another interest of importance in the international discussion of the question which the United States has not shared to the same degree. This interest of Mexico grows out of the fact that her exports of silver constitute about 40 per cent of her total exports.

When the discussion of the monetary reform began she had to confront the problem whether her adoption of the gold standard would not exercise such a depressing influence on the price of silver as to impair the value of her exports and create an adverse balance of trade, which would drain away her gold and impair, if not defeat, the benefits of the reform. In seeking to avert such a catastrophe it is not surprising that she should look for new markets for silver.

Mexican statesmen wisely rejected the belief that they could gain anything more through the channel of free silver coinage in their own country or any other. If, however, the monetary systems of China and other silver-using countries could be put upon a stable basis, which would result in the expansion of their trade and an increased demand for currency, a market would be created for silver for coinage purposes larger than that which now exists. This consideration appears to be the only silver lining in the golden cloud of the Mexican programme. Sensitive as the American public has become to any plan to promote the interests of silver, it is not apparent that the policy of Mexico is open to serious objection.

If new markets are created for silver by reason of the enhanced prosperity which demands an increased volume of currency in countries where a large quantity of subsidiary money is required, there is no obvious reason why the strongest friend of the gold standard should object to this incidental benefit to the white metal. The gold standard has come to stay in Europe and America, through a succession of victories in one country after another within our own generation. If it can win further victories, even with some incidental enlargement of the demand for silver token coins, the result will be to promote commerce and investment opportunities throughout the world by giving to those countries which are entering the circle of commercial nations the common standard of those which have long had a place there.

#### STABLE EXCHANGE WITH SILVER COUNTRIES.

A GERMAN VIEW OF THE PROJECT OF THE AMERICAN COMMISSION—HOW THE ECONOMIC PROBLEM HAS BEEN MODIFIED BY THE ABANDONMENT OF BIMETALLISM—THE SILVER COUNTRIES CEASE TO CLAIM BENEFITS FROM FALLING EXCHANGE—THE CONDITIONS WHICH FACE MEXICO AND CHINA.

[From the National Zeitung, July 26, 1903.]

The world during the last twenty-five years has seen a number of international monetary conventions whose purpose was the raising and fixing of the price of silver, for which end international bimetalism was proposed as the most suitable means. International exchange of views in matters of coinage, rehabilitation of the former price of silver, and bimetalism have therefore become nearly inseparable conceptions in the public mind. In consequence, the commissions lately sent to Europe by the Governments of the United States of America and the Republic of Mexico, and which during the last ten days have been discussing certain important problems of monetary science with certain delegates of the Government of Germany, have been called without further consideration "silver commissions." This designation is nevertheless an entirely mistaken one, in view of the real purpose of the commissions appointed by the two American States. The

Americans themselves designated their commission as the "Commission on International Exchange" (*Kommission der Internationale Wechselcourse*), and in this designation is in fact clearly expressed the real purpose of the commission. Not silver, but international exchange, especially exchange between the lands with the gold standard and those with a silver circulation, forms the subject of the latest international discussions in the realm of monetary politics.

Among the arguments which from the bimetallic side have continually been brought against the existing systems of coinage and in favor of an international bimetallism based on treaties, attention has always been called—indeed as one of the most important reasons for the change—to the grave difficulties which arise from the great fluctuations in exchange between gold and silver countries. Solely in this one point lies the connection between the discussions which were completed last Thursday in Berlin and the earlier international monetary conferences. The former objections to the existing monetary systems, especially the assertion that a scarcity of gold and an appreciation of gold exert an injurious influence upon the industrial conditions of the gold-standard countries, have in the meantime been so strikingly contradicted by facts that in these latest conferences they were indeed not even touched upon in a single word.

The main problem, common to the earlier and to the present discussions, of the abolition or limitation of the fluctuations in exchange between gold and silver lands has this time another form and content than are found in previous bimetallic conceptions. According to the bimetallic views, the fluctuations in exchange brought about by the depreciation in the price of silver were looked upon in the first place as especially injurious to countries with the gold standard. It was over and over repeated that the lands which have such a depreciation in their monetary standard enjoy thereby important advantages in international competition; that their exports are encouraged by the depreciation of their standard; and that their internal production receives by this depreciation a desirable protection against importations from gold-standard countries. In this way every industrial advance which was made in India, Mexico, and other silver lands was ascribed to the healthful effect of the falling standard, while, on the other hand, the decline of European agriculture and even mere temporary depressions in industry were ascribed to the overpowering competition of the silver-standard countries in consequence of the depreciation of their coin. In short, with every degree of refinement the theory was built up that the worst standard was the best.

To-day it is the silver-standard countries, Mexico and China, which have come first to the United States and then, in common with that country, to the governments of a number of the European gold-standard countries with the request that they be assisted in the attempt to place their exchange upon a fixed gold parity. By the representatives of these countries there was explained in emphatic and convincing manner the severe injury which, in consequence of the fall in the value of their money, their industrial development had experienced and was still experiencing. Everything which earlier has been brought forward by us of the side that is friendly to the gold standard against the bimetallic assertions of the blessings of a sinking standard has received in the latest discussions by the representatives of the silver-standard countries themselves full support, namely, that instability of the course of exchange burdens their trade with the lands that are richest and most able to buy from them, and that,

above all, the investment of capital by these lands for the purpose of opening up and employing the natural resources of the silver countries is severely checked and limited; that, in fact, the fluctuations in exchange, far from increasing the ability of the silver lands to compete in the world market, exert a most depressing effect upon their industrial development. Indeed, now the fact is rightly emphasized, even by the representatives of the silver countries, that in this point there is a real solidarity of interests between the gold and silver countries; that the same improvement in trade which will benefit the production of the silver lands is also certain to extend to a like degree the opportunities for export of the gold-standard countries, and that the facility for attracting foreign capital for investment purposes which is so important for the silver lands is closely connected with new and promising opportunities for the investment of the capital of the gold-standard countries.

Even more than in the conception of the important industrial effects of fluctuations in the monetary standard do the latest discussions differ from the customary views of the bimetallists regarding the means through which the removal of the fluctuations in exchange between gold and silver standard countries can be reached. Until very lately it was considered almost an axiom that a stable rate of exchange between gold and silver lands was only possible on the basis of a fixed ratio of value between the metals, gold and silver. In consequence the only means for the removal of the fluctuations of exchange between gold and silver was seen in international bimetalism, by which the fixing of a determined value relation between the two metals was to be brought about. The example of India and of some other countries has, however, shown that lands for which under their present industrial conditions silver can alone be considered suitable as their principal means of exchange, are in the condition, even while retaining a circulation almost exclusively silver, to reach by means of certain regulations the result that their money may enjoy on the world market a fixed rate of exchange with gold.

These measures are principally the stopping of the free coinage of silver, a step which India, as is well known, took in the year 1893. So long as the State will for everyone turn silver bars into coin for a small charge, naturally the value of the coined metal will continually stand higher than the value of the fine silver which the coin contains only by the amount of this charge. If, however, the Government limits the coinage, it can in this way bring about a material increase of the value of the coined silver over its metal value. This measure may be supplemented in an important way by the creation of a gold reserve which should be kept in the most important banking centers of foreign countries for the use of the government of the silver country. The gold reserve places the Government in a position to regulate the rate of exchange, inasmuch as, in the case of a threatening depreciation of its money (which would become noticeable in an increase in the rate of gold exchange), it would sell gold exchange upon the foreign countries at a price exceeding by not too great a sum the parity rate, and inasmuch as, on the other hand, in the case of a threatening enhancement of its monetary standard would sell exchange upon its own silver money in return for gold, which would thus be added to the gold reserve.

This is, speaking broadly, the system which, up to the present time, has been employed in India, has lately also been determined upon by the United States for the Philippines, and is now proposed by the

American and Mexican commissions, first for China and Mexico, then, however, for all other silver-standard countries, especially for the Straits Settlements and for French Indo-China. No one supposes that the success of the system proposed is an unconditional one. The result is dependent upon the industrial and financial power of the lands which adopt this system; but this much, at any rate, remains unconditionally determined by the entire ignoring in the discussions of a fixing of a value relation between the metals, gold and silver, namely, that the fixing of the value of the standard money of the silver lands, if it can be done at all, is possible only in the way proposed and already tried with success by India. The difficulties in the way, especially of Mexico and of China, are not to be underestimated. Silver is the most important export product of Mexico, and a large part of the Mexican silver export consists of coined silver of the well-known Mexican dollars, which play so great a part in the commerce of the far East. The fixing of the gold value of the Mexican money by means of the repeal of the free coinage of silver, demands, beyond any doubt, a sacrifice from the Mexican mining interests, but the representatives of the Mexican Government are clearly of the opinion that the advantages of a stable money clearly outweigh the burdens of such a sacrifice.

Still noticeably greater are the difficulties in China. Although in certain provinces foreign silver coins circulate and some of the viceroys are authorized to coin silver, even to-day the official money of the country is represented by uncoined silver bars. A condition precedent to the fixing of the rate of exchange is that it becomes possible to replace money bars by coined money, and that the administration of the new monetary system be concentrated in an effective way in the hands of the Central Government. It may appear even more than doubtful whether China will be in the condition to carry out, by its own authority, the proposed system. It is exactly on this point that she has asked for the assistance of the United States and of the European powers. The organization of the administration of the imperial customs, under Sir Robert Hart, is in this regard a valuable precedent by which the proposals of the American and Mexican commissions quite naturally must be judged. On account of this uncommonly difficult point it appeared to the interested parties in China, Mexico, and the United States desirable to have a conference and an understanding with the parties in Europe whose opinions would have weight. (The New York Journal of Commerce and Commercial Bulletin, Thursday, October 15, 1903.)

#### EXCHANGE BETWEEN GOLD AND SILVER COUNTRIES.

[Bradstreets, New York, October 31, 1903.]

While immediately after their return from abroad the individual members of the Commission on International Exchange gave to the public some account of what they had accomplished, they could not, with propriety, give any such complete or detailed statement of the results of their labors at the European capitals as is contained in the official report submitted to the Secretary of State, which has been made public this week. The appearance of this document has, therefore, been awaited with interest, not only by those specially concerned with economic and financial questions, but also by manufacturers and business men generally who look forward to the development of

trade with the silver-using countries, now hampered by uncertainties caused by the fluctuations in exchange. All such, we imagine, will be led to conclude that the Commission sent from the United States has performed a very helpful service in putting clearly before foreign statesmen and economists the propositions involved in the reform of exchange relations between the gold countries and those still upon a silver basis.

The first and most important task of the Commission was to secure from the leading powers of Europe interested in the Chinese indemnity or in Oriental colonial enterprise approval of the principle of the introduction of the gold standard into China. It is gratifying to learn that the representatives of the Governments consulted, comprising those of Great Britain, France, Holland, Germany, and Russia, accepted the suggestion made by the United States in a general way as desirable and practicable. There were some differences of opinion as to details, which were overcome in many cases by discussion. The expressions of agreement also took different forms. In Great Britain and Germany there was an agreement upon certain principles which was signed mutually by the representatives of the countries engaged in the conference. The views of the French and Dutch delegates were expressed in reports expressing judgment on the propositions submitted by the American and Mexican commissions, and in Russia a statement prepared by the representatives of the Government was transmitted as an expression of the views of the latter.

Speaking generally, there was universal agreement upon the general proposition that the adoption of a gold-exchange standard in the present silver-using countries would greatly contribute to their economic progress. It was accepted also that such a system must involve the continued large use of silver coins in order to conform to long-established customs and existing scales of value, but that free coinage of silver should be suspended and the determination of the quantity of the coins taken under the control of the State in order that measures might be promptly taken to give them a fixed relation with gold. While the introduction of a uniform gold standard into China was agreed to be desirable, there was some difference of opinion upon the question whether the gold standard should be established at the beginning or should come after the introduction of a uniform national currency upon a silver basis. On the latter question the representatives of Germany, France, and the Netherlands agreed with those of the United States that the best method would be to begin the issue of the new currency at a fixed gold par, while the representatives of Great Britain and Russia were disposed to favor beginning on a silver basis.

In regard to the question of a ratio, there was a general agreement in favor of the proportion of about 32 to 1 in every country except Russia. Even there the ratio of 32 to 1 for China was indorsed, but it was deemed best to make the reservation that each country should determine its own ratio according to its monetary needs and economic conditions. There was general agreement, except in France, upon the proposal that there would be advantages in making the purchases of silver required by each government for its coinage purposes with as much regularity as possible, though doubt was in some cases expressed whether actual requirements could always be determined with regularity. The French and German representatives of their own motion declared that they would recommend to their Governments the abolition or reduction of the present high internal taxes levied on manufactured articles of silver.

A necessary beginning has thus been made, but as the members of the Commission realize, it is but the first step toward the accomplishment of the work of the Commission, as indicated in the notes of Mexico and China. The work must be continued. In Mexico a project of law is in course of preparation which contemplates the adoption of the gold-exchange standard, which is expected to be passed. Owing to conditions in China the adoption of a sound monetary system there is a matter of much difficulty. One of the American Commissioners has already gone to China to lay before the Government the results of the work accomplished in Europe. It is hoped that with the approval of the leading countries there and the active cooperation of the American Commission the details of a suitable system will be elaborated. After that the final step in the general plan will be attempted in the extension of the fixed exchange system in some practicable form to all the other silver-using countries of the world. If the members of the Commission shall live to see that end accomplished, they will be able to look back with pride upon their share in one of the most serviceable movements in its influence upon international commerce of which modern economic history will take note.

#### THE EXTENSION OF THE GOLD STANDARD.

[The Financial Chronicle, New York, October 31, 1903.]

The formal report of the Commission on International Exchange was made public early this week and throws a strong light on their work in Europe during the past summer. They state that their first task "was to secure from the leading powers of Europe interested in the Chinese indemnity or in oriental colonial enterprise approval of the principle of the introduction of the gold standard into China." In this mission they seem to have been completely successful. A committee of eminent bankers and financiers was appointed in each country to confer with the American Commissioners, and resolutions or reports were adopted at all the capitals visited in favor of the principles which the Americans proposed. There were some differences of opinion as to details, but these are comparatively unimportant unless they result in opposition to the work of Professor Jenks, who has gone to China as the representative of the Commission. It was to forestall such opposition that the American and Mexican Commissions visited London, Paris, Berlin, and St. Petersburg. It is at Peking, however, that the details must be settled of the plan which is to be actually carried out, and Professor Jenks apparently has a free hand from his associates on the Commission as well as from European governments to bring the gold standard into operation in the best practicable way.

The American proposals, as submitted to the various European commissions, involve the issue of a coin having a fixed gold value from the outset, in accordance with the plan adopted by the United States in the Philippines. The commissions of Great Britain and Russia preferred the policy of first establishing a uniform silver currency and afterwards taking steps, through control of the foreign exchanges, to raise the coinage to a fixed gold par. This is the policy which is being pursued by Great Britain in the Straits Settlements and by France in Indo-China. The French Government seems to have adopted this policy in Indo-China because it already has a silver currency in circulation there, but it has indorsed for the Chinese Empire the principle of the American plan. It is interesting to observe that Sir Robert

Hart, the eminent Englishman who has been so long at the head of the Chinese maritime customs, also gives his indorsement to the principle of the American plan of starting on the gold standard.

The importance to the commercial world of restoring stability of exchange between the gold and silver countries was emphasized by the *Financial Chronicle* when the proposals of Mexico and China on this subject were received by our Government last winter. It was then pointed out that the policy of bimetallism was not suited to the solution of the problem and that a solution must be sought along other lines. The project of the Mexican and American Commissions, which now has the indorsement of the best experts in Europe, conforms to this view. This project involves the establishment in China and other silver-using countries of the gold exchange standard on the model of British India, the Netherlands, and the Philippines. Such a system is the nearest approach to a gold currency which is practicable in countries where the scale of wages and prices is so low that a gold sovereign would represent in some cases the earnings of two months. Setting aside the chimerical project for linking together two different commodities of widely varying supply and demand which has gone under the name of bimetallism, the proposal to give a fixed value in gold to silver coins by adjusting the output to the demands of trade and providing for redemption in gold is the only available method for putting an end to the fluctuations of exchange between the Occident and the Orient, which during the last few years have tended to hamper so greatly the extension of trade and the investment of capital.

The influence of the proposed plan upon the gold price of silver has been a subject of comment and even suspicion in certain sound-money journals. Silver has naturally become anathema in many quarters in the United States in view of the painful experiences which we have undergone by pandering to political and unscientific treatment of the subject. The sentimental effect of the suspension of free coinage in India, the repeal of the silver-purchase clause of the Sherman Act, and the successive announcements that Japan, Russia, the Philippines, Siam, the Straits Settlements, French Indo-China, and Mexico were going on the gold standard has been to depress silver. This has been the case in the face of a continued large absorption of the metal by India to an extent during the present autumn which seems to be causing almost a famine in the silver market. There is nothing improper in the effort of the Government of Mexico to reverse this sentimental tendency by seeking to convince the world that the adoption of a gold exchange standard in former silver-using countries will tend to enhance their prosperity and increase the demand for silver for their token coinage. This was evidently one of the objects of the Mexican Government in proposing joint action, but there appears to be no doubt that Mexico intends to set her face resolutely toward the gold standard whether silver falls or rises. Her explanations in Europe of the actual relations between demand and supply, according to present methods of production, seem to have counteracted the sentimental impression that the adoption of the gold standard would necessarily be the death knell of silver as a commodity, and in this respect to have cleared the air for carrying out her own monetary reform.

Whatever may be the merits or demerits of the project of the American and Mexican Commissions, and whatever delay may be caused by unexpected obstacles in putting China on the gold exchange standard, there is no doubt that the ultimate tendency of their plans must be

the extension of the gold standard throughout the world. This does not necessarily mean any worse position for silver as a commodity than it enjoys to-day, but probably means in many oriental countries a larger demand for the metal for subsidiary coinage by reason of an enlarged volume of exchanges. In the plans proposed by Mexico and China, however, there is provision for the automatic introduction of gold into the circulation as soon as local conditions become suited to its use. The mints will be open to the free coinage of gold, and it is highly probable that in Mexico, at least, this provision will be availed of by the bankers for strengthening their metallic reserves. In China the employment of actual gold in circulation will probably come more slowly, but under the plan of the two Commissions it will come as rapidly as the country requires it, gradually displacing silver in large transactions and strengthening the reserves of the banks, without change in the unit of value or any jar in the process of transition.

The American and Mexican Commissions have undoubtedly done wisely in taking in hand the problem of establishing a par of exchange between East and West, even if it appears in the sequel that the difficulties to be surmounted in China will delay the execution of their programme. It was time for a beginning in the matter, and this fact seems to have been frankly recognized by the Chinese Government and its diplomatic representatives in Europe. That many practical difficulties will confront Professor Jenks in persuading the Chinese Government to adopt the gold-standard system and, having secured its formal approval, to give it practical effect, is frankly admitted by the report of the American Commission. They rightly suggest, however, that the United States in taking the lead in the matter is in a better position than any of the other powers to escape international jealousies, and that it will redound greatly to the credit of this country and to the extension of the world's trade if the project is carried out.

# APPENDIX N.

## STATISTICAL DATA.

*Production of gold and silver in the world since the discovery of America.*

[From 1493 to 1885 is from a table of averages for certain periods, compiled by Dr. Adolph Soetbeer.  
For the years 1886 to 1901 the production is the annual estimate of the Bureau of the Mint.]

Period.	Gold.			
	Average annual for period.		Total for period.	
	Fine ounces.	Value.	Fine ounces.	Value.
1493-1520	186,470	\$3,855,000	5,221,160	\$107,931,000
1521-1544	230,194	4,759,000	5,524,656	114,205,000
1545-1560	273,596	5,656,000	4,377,544	90,492,000
1561-1580	219,906	4,546,000	4,398,120	90,917,000
1581-1600	237,267	4,905,000	4,745,340	98,095,000
1601-1620	273,918	5,662,000	5,478,360	113,248,000
1621-1640	266,845	5,516,000	5,336,900	110,324,000
1641-1660	281,955	5,828,000	5,639,110	116,571,000
1661-1680	297,709	6,154,000	5,954,180	123,084,000
1681-1700	346,095	7,154,000	6,921,895	143,088,000
1701-1720	412,163	8,520,000	8,243,260	170,403,000
1721-1740	613,422	12,681,000	12,268,440	253,611,000
1741-1760	791,211	16,356,000	15,824,230	327,116,000
1761-1780	665,666	13,761,000	13,313,315	275,211,000
1781-1800	571,948	11,823,000	11,438,970	236,464,000
1801-1810	571,563	11,815,000	5,715,627	118,152,000
1811-1820	367,957	7,606,000	3,679,568	76,063,000
1821-1830	457,044	9,448,000	4,570,444	94,479,000
1831-1840	652,291	13,484,000	6,522,913	134,841,000
1841-1850	1,760,502	36,393,000	17,605,018	363,928,000
1851-1855	6,410,324	132,513,000	32,051,621	662,566,000
1856-1860	6,486,262	134,083,000	32,431,312	670,415,000
1861-1865	5,949,582	122,989,000	29,747,913	614,944,000
1866-1870	6,270,086	129,614,000	31,350,430	648,071,000
1871-1875	5,591,014	115,577,000	27,955,068	577,883,000
1876-1880	5,543,110	114,586,000	27,715,550	572,931,000
1881-1885	4,794,755	99,116,000	23,973,773	495,582,000
1886-1890	5,461,282	112,895,000	27,306,411	564,474,000
1891-1895	7,882,565	162,947,000	39,412,823	814,736,000
1896	9,783,914	202,251,600	9,783,914	202,251,600
1897	11,420,068	236,073,700	11,420,068	236,073,700
1898	13,877,806	286,879,700	13,877,806	286,879,700
1899	14,837,775	306,724,100	14,837,775	306,724,100
1900	12,315,135	254,576,300	12,315,135	254,576,300
1901	12,698,089	262,492,900	12,698,089	262,492,900
1902	14,313,660	295,889,600	14,313,660	295,889,600
Total			513,970,398	10,624,712,900

Period.	Silver.			
	Annual average for period.		Total for period.	
	Fine ounces.	Coining value.	Fine ounces.	Coining value.
1493-1520	1,511,050	\$1,954,000	42,309,400	\$54,703,000
1521-1544	2,899,930	3,740,000	69,598,320	89,986,000
1545-1560	10,017,940	12,952,000	160,287,040	207,240,000
1561-1580	9,628,925	12,450,000	192,578,500	248,990,000
1581-1600	13,467,635	17,413,000	269,352,700	348,254,000
1601-1620	13,596,235	17,579,000	271,924,700	351,579,000
1621-1640	12,654,240	16,361,000	253,084,800	327,221,000
1641-1660	11,776,545	15,226,000	235,530,900	304,525,000
1661-1680	10,834,550	14,008,000	216,691,000	280,166,000
1681-1700	10,992,085	14,212,000	219,841,700	284,240,000
1701-1720	11,432,540	14,781,000	228,650,800	295,629,000

*Production of gold and silver in the world, etc.—Continued.*

Period.	Silver.			
	Annual average for period.		Total for period.	
	Fine ounces.	Coining value.	Fine ounces.	Coining value.
1721-1740	13,863,080	\$17,924,000	277,261,600	\$358,480,000
1741-1760	17,140,612	22,162,000	342,812,235	443,232,000
1761-1780	20,985,591	27,133,000	419,711,820	542,658,000
1781-1800	28,261,779	36,540,000	565,235,580	730,810,000
1801-1810	28,746,922	37,168,000	287,469,225	371,677,000
1811-1820	17,385,755	22,479,000	173,857,555	224,780,000
1821-1830	14,807,004	19,144,000	148,070,040	191,444,000
1831-1840	19,175,867	24,798,000	191,758,675	247,980,000
1841-1850	25,090,342	32,440,000	250,903,422	324,400,000
1851-1855	28,488,597	36,824,000	142,442,986	184,169,000
1856-1860	29,095,428	37,618,000	145,477,142	188,062,000
1861-1865	35,401,972	45,772,000	177,009,862	228,861,000
1866-1870	43,051,583	55,663,000	215,257,914	278,313,000
1871-1875	63,317,014	81,864,000	316,585,069	409,322,000
1876-1880	78,775,602	101,851,000	393,878,009	509,256,000
1881-1885	92,003,944	118,955,000	460,019,722	594,773,000
1886-1890	108,911,431	140,815,000	544,557,155	704,074,000
1891-1895	157,581,331	203,742,000	787,906,656	1,018,708,000
1896	157,061,370	203,069,200	157,061,370	203,069,200
1897	160,421,082	207,413,000	160,421,082	207,413,000
1898	169,055,253	218,576,800	169,055,253	218,576,800
1899	168,337,453	217,648,200	168,337,453	217,648,200
1900	173,591,364	224,441,200	173,591,364	224,441,200
1901	173,011,283	223,691,300	173,011,283	223,691,300
1902	166,955,639	215,861,800	166,955,639	215,861,800
Total			9,168,497,971	11,854,213,500

Period.	Percentage of production.			
	By weight.		By value.	
	Gold.	Silver.	Gold.	Silver.
1493-1520	11	89	66.4	33.6
1521-1544	7.4	92.6	55.9	44.1
1545-1560	2.7	97.3	30.4	69.6
1561-1580	2.2	97.8	26.7	73.3
1581-1600	1.7	98.3	22	78
1601-1620	2	98	24.4	75.6
1621-1640	2.1	97.9	25.2	74.8
1641-1660	2.3	97.7	27.7	72.3
1661-1680	2.7	97.3	30.5	69.5
1681-1700	3.1	96.9	33.5	66.5
1701-1720	3.5	96.5	36.6	63.4
1721-1740	4.2	95.8	41.4	58.6
1741-1760	4.4	95.6	42.5	57.5
1761-1780	3.1	96.9	33.7	66.3
1781-1800	2	98	24.4	75.6
1801-1810	1.9	98.1	24.1	75.9
1811-1820	2.1	97.9	25.3	74.7
1821-1830	3	97	33	67
1831-1840	3.3	96.7	35.2	64.8
1841-1850	6.6	93.4	52.9	47.1
1851-1855	18.4	81.6	78.3	21.7
1856-1860	18.2	81.8	78.1	21.9
1861-1865	14.4	85.6	72.9	27.1
1866-1870	12.7	87.3	70	30
1871-1875	8.1	91.9	58.5	41.5
1876-1880	6.6	93.4	53	47
1881-1885	5	95	45.5	54.5
1886-1890	4.8	95.2	44.5	55.5
1891-1895	4.8	95.2	44.4	55.6
1896	5.9	94.1	49.9	50.1
1897	6.7	93.3	53.2	46.8
1898	7.6	92.4	56.8	43.2
1899	8.1	91.9	58.5	41.5
1900	6.6	93.4	53.2	46.8
1901	6.8	93.2	54	46
1902	7.9	92.1	57.8	42.2
Total	5.3	94.7	47.3	52.7

*World's production of gold and silver for calendar years 1900, 1901, and 1902.*

Country.	1900.						
	Gold.			Silver.			
	Kilo-grams (fine).	Ounces (fine).	Value.	Kilo-grams (fine).	Ounces (fine).	Coining value.	Commercial value.
North America:							
United States.....	119,126	3,829,897	\$79,171,000	1,793,395	57,647,000	\$74,533,500	\$35,741,100
Mexico.....	13,542	435,375	a 9,000,000	1,786,887	57,437,808	74,263,000	35,611,400
Canada.....	41,951	1,348,720	27,880,500	138,400	4,448,755	5,751,900	2,758,200
Africa.....	13,048	419,503	8,671,900				
Australasia.....	110,591	3,555,506	73,498,900	415,014	13,340,263	17,248,000	8,271,000
Europe:							
Russia.....	30,312	974,537	20,145,500	4,458	143,299	185,300	88,800
Austria-Hungary.....	3,223	103,615	2,141,900	61,871	1,988,774	2,571,300	1,233,000
Germany.....	99	3,192	66,000	168,350	5,411,441	6,996,600	3,355,100
Norway.....				5,377	172,839	223,500	107,200
Sweden.....	88	2,845	58,800	1,928	61,983	80,100	38,400
Italy.....	53	1,704	35,200	23,374	751,335	971,400	465,800
Spain.....	13	418	8,600	99,095	3,185,316	4,118,400	1,974,900
Portugal.....	3	83	1,700	c 119	3,790	4,900	2,300
Greece.....				31,472	1,011,656	1,308,000	627,200
Turkey.....	c 21	675	14,000	c 4,422	142,141	183,800	88,100
Finland.....	b 3	84	1,700	b 244	7,843	10,100	4,900
France.....				14,067	452,151	584,600	280,300
Great Britain.....	415	13,360	276,200	6,896	221,673	286,600	137,400
South America:							
Argentina.....	66	2,112	43,700	1,178	37,898	49,000	23,500
Bolivia.....	180	5,786	119,600	341,295	10,970,610	14,184,200	6,801,800
Chile.....	2,449	78,735	1,627,600	b 129,503	4,162,718	5,382,100	2,580,900
Colombia.....	1,798	57,804	1,194,900	57,994	1,864,165	2,410,200	1,155,800
Ecuador.....	162	5,208	107,700	240	7,734	a 10,000	4,800
Brazil.....	4,176	134,260	2,775,400				
Venezuela.....	483	15,538	321,200				
Guiana (British).....	3,063	98,487	2,035,900				
Guiana (Dutch).....	698	22,439	463,800				
Guiana (French).....	2,378	76,468	1,580,700				
Peru.....	1,633	52,498	1,085,200	226,973	7,295,825	9,433,000	4,523,400
Uruguay.....	46	1,492	30,800	25	800	1,000	500
Central America.....	752	24,188	500,000	31,523	1,013,285	1,310,100	628,200
Asia:							
Japan.....	1,808	58,127	1,201,600	53,809	1,729,603	2,236,300	1,072,400
China.....	8,387	269,662	b 5,574,400				
Korea.....	6,771	217,687	4,500,000				
India (British).....	14,197	456,444	9,435,500				
East Indies (British).....	860	27,643	571,400				
East Indies (Dutch).....	654	21,043	435,000	2,509	80,659	104,300	50,000
Total.....	383,049	12,315,135	254,576,300	5,400,418	173,591,364	224,441,200	107,626,400

Country.	1901.						
	Gold.			Silver.			
	Kilo-grams (fine).	Ounces (fine).	Value.	Kilo-grams (fine).	Ounces (fine).	Coining value.	Commercial value.
North America:							
United States.....	118,367	3,805,500	\$78,666,700	1,717,705	55,214,000	\$71,387,800	\$33,128,400
Mexico.....	15,475	497,527	10,284,800	1,793,692	57,656,549	74,545,900	34,593,900
Canada.....	36,305	1,167,216	24,128,500	163,099	5,242,697	6,778,400	3,145,600
Africa.....	13,677	439,704	9,089,500				
Australasia.....	115,679	3,719,080	76,880,200	318,256	10,230,046	13,226,700	6,138,000
Europe:							
Russia.....	34,383	1,105,412	22,850,900	4,884	156,993	203,000	94,200
Austria-Hungary.....	3,215	103,363	2,136,700	62,118	1,996,706	2,581,600	1,198,000
Germany.....	90	2,893	59,800	171,778	5,521,648	7,139,100	3,313,000
Norway.....				5,161	165,902	214,500	99,500
Sweden.....	63	2,017	41,700	1,680	53,986	69,800	32,400
Italy.....	8	257	5,300	30,000	964,333	1,246,800	578,600
Spain.....	a 13	418	8,600	99,095	3,185,316	4,118,400	1,911,200
Portugal.....	2	63	1,300	a 119	3,790	4,900	2,300
Greece.....				35,902	1,154,046	1,492,100	692,400
Turkey.....	37	1,185	24,500	13,352	429,180	554,900	257,500
Finland.....	2	63	1,300	a 244	7,843	10,100	4,700
France.....				11,954	384,263	496,800	230,600
Great Britain.....	175	5,626	116,300	5,392	173,297	224,100	104,000
South America:							
Argentina.....	45	1,451	30,000	1,405	45,166	58,400	27,100
Bolivia.....	180	5,786	119,600	404,201	12,992,695	16,798,600	7,795,600

a Estimate Bureau of the Mint.

b Figures for 1899 repeated.

c Figures for 1898 repeated.

*World's production of gold and silver, etc.—Continued.*

Country.	1901.						
	Gold.			Silver.			
	Kilo-grams (fine).	Ounces (fine).	Value.	Kilo-grams (fine).	Ounces (fine).	Coining value.	Commercial value.
South America—Con.							
Chile	1,606	51,626	\$1,067,200	287,926	9,255,130	\$11,966,200	\$5,553,100
Colombia	4,215	135,513	2,801,300	58,537	1,881,649	2,432,800	1,129,000
Ecuador	165	5,321	110,000	<i>a</i> 240	7,734	10,000	4,600
Brazil	4,176	134,260	2,775,400				
Venezuela	483	15,538	321,200				
Guiana (British)	2,666	85,701	1,771,600				
Guiana (Dutch)	610	19,621	405,600				
Guiana (French)	3,009	96,750	2,000,000				
Peru	865	27,825	575,200	110,965	3,566,868	4,611,700	2,140,100
Uruguay	47	1,530	31,700	<i>a</i> 25	800	1,000	500
Central America	963	30,974	640,300	27,365	879,666	1,137,400	527,800
Asia:							
Japan	1,808	58,127	1,201,600	<i>a</i> 53,809	1,729,603	2,236,300	1,037,800
China	13,680	439,801	9,091,500				
Korea	<i>a</i> 6,771	217,637	4,500,000				
India (British)	14,138	454,527	9,395,900				
East Indies (British)							
East Indies (Dutch)	1,296	41,685	861,700				
	748	24,042	497,000	3,465	111,377	144,000	66,800
Total	394,962	12,698,089	262,492,900	5,382,369	173,011,283	223,691,300	103,806,700
Country.	1902.						
	Gold.			Silver.			
	Kilo-grams (fine).	Ounces (fine).	Value.	Kilo-grams (fine).	Ounces (fine).	Coining value.	Commercial value.
North America:							
United States	120,373	3,870,000	\$80,000,000	1,726,603	55,500,000	\$71,757,600	\$29,415,000
Mexico	15,279	491,156	10,153,100	1,872,091	60,176,604	77,804,100	31,893,600
Canada	31,209	1,003,355	20,741,200	133,891	4,303,774	5,564,500	2,281,000
Africa	53,716	1,887,773	39,023,700				
Australasia	122,749	3,946,374	81,578,800	249,690	8,026,037	10,377,100	4,253,800
Europe:							
Russia	33,905	1,090,053	22,533,400	4,937	158,679	205,200	84,100
Austria-Hungary	3,267	105,037	2,171,300	58,523	1,881,132	2,432,200	997,000
Germany	94	3,023	62,500	178,032	5,722,641	7,399,000	3,033,000
Norway	3	97	2,000	6,422	206,413	266,900	109,400
Sweden	94	3,023	62,500	1,439	46,226	59,800	24,500
Italy	8	257	5,300	30,000	964,339	1,246,800	511,100
Spain	15	494	10,200	115,113	3,700,189	4,784,100	1,961,100
Portugal	2	63	1,300	118	3,773	4,900	2,000
Greece				33,915	1,090,188	1,409,500	577,800
Turkey	46	1,480	30,600	14,949	480,566	621,300	254,700
Finland	2	63	1,300	269	8,679	11,200	4,600
France				11,956	384,339	496,900	203,700
Great Britain	175	5,626	116,300	5,387	173,208	223,900	91,800
South America:							
Argentina	45	1,451	30,000	1,174	37,720	48,800	20,000
Bolivia	7	228	4,700	404,201	12,992,641	16,798,600	6,886,100
Chile	866	27,825	575,200	110,962	3,566,792	4,611,600	1,890,400
Colombia	3,796	122,031	2,522,600	55,269	1,776,604	2,297,000	941,600
Ecuador	301	9,675	200,000	240	7,736	10,000	4,100
Brazil	1,001	96,488	1,994,600				
Venezuela	653	20,985	433,800	58	1,887	2,400	1,000
Guiana (British)	2,721	87,491	1,808,600				
Guiana (Dutch)	484	15,577	322,000				
Guiana (French)	3,642	117,077	2,420,200				
Peru	3,500	112,525	2,326,100	132,668	4,264,528	5,513,700	2,260,200
Uruguay	87	2,796	57,800	24	755	1,000	400
Central America	3,012	96,842	2,001,900	30,217	971,320	1,255,800	514,800
Asia:							
Japan	1,936	62,259	1,287,000	12,151	390,567	505,000	207,000
China	13,138	422,401	8,731,800				
Korea	5,266	169,313	3,500,000				
British India	14,428	463,824	9,588,100				
East Indies (British)							
East Indies (Dutch)	1,545	49,686	1,027,100				
	850	27,312	564,600	3,679	118,302	152,900	62,700
Total	445,215	14,313,660	295,889,600	5,193,978	166,955,639	215,861,800	88,486,500

*a* Figures for 1900 repeated.

*Highest, lowest, and average price of bar silver in London, per ounce British standard (0.925), since 1833, and the equivalent in United States gold coin of an ounce 1,000 fine, taken at the average price.*

Calendar years.	Highest quotation.	Lowest quotation.	Average quotation.	Value of a fine ounce at average quotation.	Calendar years.	Highest quotation.	Lowest quotation.	Average quotation.	Value of a fine ounce at average quotation.
1833.	d. 59 $\frac{1}{2}$	d. 58 $\frac{1}{2}$	d. 59 $\frac{9}{16}$	\$1. 297	1868	d. 61 $\frac{1}{2}$	d. 60 $\frac{1}{2}$	d. 60 $\frac{1}{2}$	\$1. 326
1834	60 $\frac{1}{2}$	59 $\frac{1}{2}$	59 $\frac{1}{2}$	1. 313	1869	61	60	60 $\frac{7}{16}$	1. 325
1835	60	59 $\frac{1}{2}$	59 $\frac{1}{2}$	1. 308	1870	60 $\frac{1}{2}$	60 $\frac{1}{2}$	60 $\frac{1}{16}$	1. 328
1836	60 $\frac{3}{8}$	59 $\frac{1}{2}$	60	1. 315	1871	61	60 $\frac{3}{8}$	60 $\frac{1}{2}$	1. 326
1837	60 $\frac{3}{8}$	59	59 $\frac{9}{16}$	1. 305	1872	61 $\frac{1}{2}$	59 $\frac{1}{2}$	60 $\frac{5}{16}$	1. 322
1838	60 $\frac{1}{2}$	59 $\frac{1}{2}$	59 $\frac{1}{2}$	1. 304	1873	59 $\frac{1}{2}$	57 $\frac{1}{2}$	59 $\frac{3}{16}$	1. 29769
1839	60 $\frac{1}{2}$	60	60 $\frac{1}{2}$	1. 323	1874	59 $\frac{1}{2}$	57 $\frac{1}{2}$	58 $\frac{5}{16}$	1. 27883
1840	60 $\frac{1}{2}$	60 $\frac{1}{2}$	60 $\frac{1}{2}$	1. 323	1875	57 $\frac{1}{2}$	55 $\frac{1}{2}$	56 $\frac{1}{16}$	1. 24233
1841	60 $\frac{3}{8}$	59 $\frac{1}{2}$	60 $\frac{1}{16}$	1. 316	1876	58 $\frac{1}{2}$	46 $\frac{1}{2}$	53 $\frac{1}{2}$	1. 16414
1842	60	59 $\frac{1}{2}$	59 $\frac{7}{16}$	1. 303	1877	58 $\frac{1}{2}$	53 $\frac{1}{2}$	54 $\frac{1}{16}$	1. 20189
1843	59 $\frac{1}{2}$	59	59 $\frac{1}{16}$	1. 297	1878	55 $\frac{1}{2}$	49 $\frac{1}{2}$	52 $\frac{1}{8}$	1. 15358
1844	59 $\frac{1}{2}$	59 $\frac{1}{2}$	59 $\frac{1}{2}$	1. 304	1879	53 $\frac{1}{2}$	48 $\frac{1}{2}$	51 $\frac{1}{2}$	1. 12392
1845	59 $\frac{1}{2}$	58 $\frac{1}{2}$	59 $\frac{1}{2}$	1. 298	1880	52 $\frac{1}{2}$	51 $\frac{1}{2}$	52 $\frac{1}{2}$	1. 14507
1846	60 $\frac{1}{2}$	59	59 $\frac{5}{16}$	1. 300	1881	52 $\frac{1}{2}$	50 $\frac{1}{2}$	51 $\frac{1}{2}$	1. 13229
1847	60 $\frac{1}{2}$	58 $\frac{1}{2}$	59 $\frac{1}{16}$	1. 308	1882	52 $\frac{1}{2}$	50	51 $\frac{1}{16}$	1. 13562
1848	60	58 $\frac{1}{2}$	59 $\frac{1}{2}$	1. 304	1883	51 $\frac{3}{16}$	50 $\frac{1}{16}$	50 $\frac{9}{16}$	1. 10874
1849	60	59 $\frac{1}{2}$	59 $\frac{1}{2}$	1. 309	1884	51 $\frac{3}{16}$	49 $\frac{1}{2}$	50 $\frac{1}{16}$	1. 11068
1850	61 $\frac{1}{2}$	59 $\frac{1}{2}$	61 $\frac{1}{16}$	1. 316	1885	50	46 $\frac{1}{2}$	48 $\frac{9}{16}$	1. 06510
1851	61 $\frac{1}{2}$	60	61	1. 337	1886	47	42	45 $\frac{1}{8}$	.99467
1852	61 $\frac{1}{2}$	59 $\frac{1}{2}$	60 $\frac{1}{2}$	1. 326	1887	47 $\frac{1}{8}$	43 $\frac{1}{2}$	44 $\frac{1}{16}$	.97946
1853	61 $\frac{1}{2}$	60 $\frac{1}{2}$	61 $\frac{1}{2}$	1. 348	1888	44 $\frac{9}{16}$	41 $\frac{1}{2}$	42 $\frac{1}{2}$	.93974
1854	61 $\frac{1}{2}$	60 $\frac{1}{2}$	61 $\frac{1}{2}$	1. 348	1889	44 $\frac{9}{16}$	41 $\frac{1}{2}$	42 $\frac{1}{16}$	.93511
1855	61 $\frac{1}{2}$	60	61 $\frac{5}{16}$	1. 344	1890	54 $\frac{1}{8}$	43 $\frac{1}{2}$	47 $\frac{1}{2}$	1. 04634
1856	62 $\frac{1}{2}$	60 $\frac{1}{2}$	61 $\frac{1}{16}$	1. 344	1891	48 $\frac{1}{2}$	43 $\frac{1}{2}$	45 $\frac{1}{16}$	.98800
1857	62 $\frac{1}{2}$	61	61 $\frac{1}{8}$	1. 353	1892	43 $\frac{1}{2}$	37 $\frac{1}{2}$	39 $\frac{1}{2}$	.87145
1858	61 $\frac{1}{2}$	60 $\frac{1}{2}$	61 $\frac{5}{16}$	1. 344	1893	38 $\frac{1}{2}$	30 $\frac{1}{2}$	35 $\frac{9}{16}$	.78030
1859	62 $\frac{1}{2}$	61 $\frac{1}{2}$	62 $\frac{1}{16}$	1. 360	1894	31 $\frac{1}{2}$	27	28 $\frac{1}{16}$	.63479
1860	62 $\frac{1}{2}$	61 $\frac{1}{2}$	61 $\frac{1}{2}$	1. 352	1895	29 $\frac{1}{2}$	27 $\frac{3}{8}$	29 $\frac{1}{16}$	.65406
1861	61 $\frac{1}{2}$	60 $\frac{1}{2}$	60 $\frac{1}{2}$	1. 333	1896	31 $\frac{1}{2}$	29	30 $\frac{1}{16}$	.67565
1862	62 $\frac{1}{2}$	61	61 $\frac{7}{16}$	1. 346	1897	27 $\frac{1}{2}$	23 $\frac{1}{2}$	27 $\frac{9}{16}$	.60438
1863	61 $\frac{1}{2}$	61	61 $\frac{1}{2}$	1. 345	1898	28 $\frac{1}{2}$	25	26 $\frac{1}{16}$	.59010
1864	62 $\frac{1}{2}$	60 $\frac{1}{2}$	61 $\frac{1}{8}$	1. 345	1899	29	26 $\frac{1}{2}$	27 $\frac{1}{16}$	.60154
1865	61 $\frac{1}{2}$	60 $\frac{1}{2}$	61 $\frac{1}{16}$	1. 338	1900	30 $\frac{1}{2}$	27	28 $\frac{5}{16}$	.62007
1866	62 $\frac{1}{2}$	60 $\frac{1}{2}$	61 $\frac{1}{2}$	1. 339	1901	29 $\frac{9}{16}$	24 $\frac{1}{16}$	27 $\frac{3}{16}$	.59595
1867	61 $\frac{1}{2}$	60 $\frac{1}{2}$	60 $\frac{1}{16}$	1. 328	1902	26 $\frac{1}{16}$	21 $\frac{1}{16}$	24 $\frac{1}{16}$	.52795

*Highest, lowest, and average price of silver bullion and value of a fine ounce each month, during the calendar years 1900-1903.*

Month.	High-est.	Low-est.	Average price per ounce per ounce British standard, 0.925.	Equivalent value of a fine ounce with exchange at par (\$4.8665).	Average monthly price at New York of exchange on London.	Equivalent value of a fine ounce based on average monthly price and average rate of exchange.	Average monthly New York price of fine bar silver.
1900.	Pence.	Pence.	Pence.				
January	27 $\frac{3}{4}$	27	27. 3088	\$0. 59864	\$4. 8725	\$0. 59938	\$0. 60226
February	27 $\frac{3}{4}$	27 $\frac{5}{16}$	27. 4765	. 60015	4. 8748	. 60346	. 60602
March	27 $\frac{1}{2}$	27 $\frac{7}{16}$	27. 5810	. 60460	4. 8591	. 60363	. 60611
April	27 $\frac{1}{2}$	27 $\frac{7}{16}$	27. 4150	. 60096	4. 8756	. 60208	. 60395
May	27 $\frac{1}{2}$	27 $\frac{1}{2}$	27. 5625	. 60577	4. 8806	. 60619	. 60682
June	28 $\frac{9}{16}$	27 $\frac{9}{16}$	27. 8293	. 61005	4. 8696	. 61043	. 61120
July	28 $\frac{9}{16}$	27 $\frac{1}{2}$	28. 2375	. 61895	4. 8712	. 61957	. 61935
August	28 $\frac{9}{16}$	27 $\frac{1}{2}$	28. 2500	. 61927	4. 8786	. 61839	. 61865
September	28 $\frac{7}{16}$	28 $\frac{7}{16}$	28. 8375	. 63215	4. 8689	. 63285	. 63343
October	30 $\frac{1}{2}$	29 $\frac{3}{8}$	29. 5902	. 64865	4. 8432	. 64551	. 64935
November	29 $\frac{1}{2}$	29 $\frac{7}{16}$	29. 6634	. 65025	4. 8470	. 64760	. 64296
December	29 $\frac{1}{2}$	29 $\frac{1}{2}$	29. 6900	. 65839	4. 8488	. 64849	. 64775
Average			28. 2868	. 62007	4. 8658	. 61979	. 62065
1901.							
January	29 $\frac{9}{16}$	27 $\frac{1}{2}$	28. 9735	. 63513	4. 8724	. 63582	. 63485
February	28 $\frac{7}{16}$	27 $\frac{1}{2}$	28. 1592	. 61728	4. 8780	. 61858	. 61693
March	28 $\frac{1}{2}$	27 $\frac{5}{16}$	27. 9495	. 61268	4. 8778	. 61422	. 61336
April	28 $\frac{1}{2}$	27 $\frac{1}{2}$	27. 2925	. 59828	4. 8817	. 60014	. 60093
May	27 $\frac{1}{2}$	27 $\frac{3}{16}$	27. 4189	. 60105	4. 8815	. 60366	. 60394
June	27 $\frac{1}{2}$	27 $\frac{1}{2}$	27. 4200	. 60107	4. 8820	. 60298	. 60335
July	27 $\frac{1}{2}$	26 $\frac{1}{2}$	26. 9629	. 59107	4. 8752	. 59209	. 59423
August	27 $\frac{1}{2}$	26 $\frac{1}{2}$	26. 9375	. 59050	4. 8731	. 59130	. 59217
September	27	26 $\frac{1}{2}$	26. 9650	. 59110	4. 8485	. 58949	. 58978
October	26 $\frac{1}{2}$	26 $\frac{1}{2}$	26. 6157	. 58344	4. 8623	. 58294	. 58356
November	26 $\frac{1}{2}$	25 $\frac{1}{2}$	26. 0913	. 57150	4. 8752	. 57360	. 57400
December	25 $\frac{1}{2}$	24 $\frac{1}{2}$	25. 4475	. 55783	4. 8698	. 55820	. 55790
Average			27. 1861	. 59595	4. 8731	. 59691	. 59703

*Highest, lowest, and average price of silver bullion and value of a fine ounce, each month, during the calendar years 1900-1903—Continued.*

Month.	High- est.	Low- est.	Average price per ounce per ounce British standard, 0.925.	Equivalent value of a fine ounce with exchange at par (\$4.8665).	Average monthly price at New York of ex- change on London.	Equivalent value of a fine ounce based on average monthly price and av- erage rate of exchange.	Average monthly New York price of fine bar silver.
1902.							
January .....	26 $\frac{1}{16}$	25 $\frac{5}{16}$	25.6250	\$0.56173	\$4.8716	\$0.56231	\$0.56302
February .....	25 $\frac{1}{2}$	25 $\frac{5}{16}$	25.4140	.55711	4.8749	.55806	.55833
March .....	24 $\frac{7}{16}$	24 $\frac{3}{8}$	25.0078	.54820	4.8773	.54938	.54923
April .....	24 $\frac{1}{2}$	23 $\frac{5}{16}$	24.3221	.53316	4.8788	.53449	.53452
May .....	24 $\frac{1}{2}$	23 $\frac{5}{16}$	23.6930	.51950	4.8731	.52021	.52000
June .....	24 $\frac{7}{16}$	23 $\frac{5}{16}$	24.1850	.53016	4.8764	.53122	.53085
July .....	24 $\frac{7}{16}$	24 $\frac{3}{16}$	24.3680	.53417	4.8800	.53566	.53152
August .....	24 $\frac{7}{16}$	24 $\frac{3}{16}$	24.2259	.53106	4.8748	.53197	.53250
September .....	24 $\frac{1}{2}$	23 $\frac{5}{16}$	23.8750	.52326	4.8603	.52270	.52269
October .....	23 $\frac{1}{2}$	23 $\frac{1}{2}$	23.4004	.51296	4.8626	.51255	.51162
November .....	23 $\frac{1}{2}$	21 $\frac{1}{16}$	22.6925	.49731	4.8714	.49758	.49705
December .....	22 $\frac{3}{4}$	21 $\frac{1}{16}$	22.2067	.48679	4.8701	.48694	.48653
Average .....			24.0851	.52795	4.8726	.52858	.52815
1903.							
January .....	22 $\frac{3}{8}$	21 $\frac{1}{16}$	21.9838	.48191	4.8689	.48214	.48213
February .....	22 $\frac{1}{2}$	21 $\frac{1}{16}$	22.1093	.48466	4.8753	.48553	.48479
March .....	22 $\frac{1}{2}$	22 $\frac{1}{16}$	22.5000	.49322	4.8702	.49359	.49355
April .....	25 $\frac{1}{16}$	22 $\frac{3}{8}$	23.3550	.51196	4.8718	.51253	.51255
May .....	25 $\frac{1}{16}$	24 $\frac{1}{16}$	24.8894	.54560	4.8813	.54709	.54775
June .....	24 $\frac{1}{16}$	24 $\frac{1}{16}$	24.3300	.53334	4.8779	.53457	.53519
July .....	25 $\frac{1}{16}$	24 $\frac{1}{16}$	24.8611	.54498	4.8675	.54509	.54500
August .....	26 $\frac{3}{8}$	25 $\frac{5}{16}$	25.6009	.56120	4.8582	.56025	.56076
September .....	27 $\frac{9}{16}$	26 $\frac{1}{2}$	26.7524	.58644	4.8635	.58608	.58605
October .....	28 $\frac{1}{2}$	27 $\frac{7}{16}$	27.8935	.61145	4.8564	.61064	.60963
November .....	27 $\frac{3}{4}$	26 $\frac{1}{2}$	27.0050	.59198	4.8396	.58898	.58745
Average (11 months) .....			24.6618	.54061	4.8664	.54059	.54044

*Highest, lowest, and average value of a United States silver dollar, measured by the market price of silver, and the quantity of silver purchasable with a dollar at the average London price of silver, each year since 1873.*

Calendar year.	Bullion value of a silver dollar.			Grains of pure silver at average price purchasable with a United States silver dollar. <sup>a</sup>
	Highest.	Lowest.	Average.	
1873 .....	\$1.016	\$0.981	\$1.004	369.77
1874 .....	1.008	.970	.989	375.38
1875 .....	.977	.941	.961	386.31
1876 .....	.991	.792	.900	412.50
1877 .....	.987	.902	.929	399.62
1878 .....	.936	.839	.892	416.20
1879 .....	.911	.828	.869	427.21
1880 .....	.895	.873	.885	419.49
1881 .....	.896	.862	.876	423.80
1882 .....	.888	.847	.878	422.83
1883 .....	.868	.848	.858	432.69
1884 .....	.871	.839	.859	432.18
1885 .....	.847	.794	.823	451.09
1886 .....	.797	.712	.769	482.77
1887 .....	.799	.733	.758	489.78
1888 .....	.755	.706	.727	510.66
1889 .....	.752	.711	.723	513.48
1890 .....	.926	.740	.809	458.90
1891 .....	.827	.738	.764	485.93
1892 .....	.742	.642	.674	550.81
1893 .....	.657	.517	.604	614.65
1894 .....	.538	.457	.491	756.11
1895 .....	.532	.461	.505	735.14
1896 .....	.541	.504	.522	711.20
1897 .....	.505	.400	.467	794.96
1898 .....	.481	.424	.456	814.14
1899 .....	.491	.451	.465	791.84
1900 .....	.509	.463	.479	774.10
1901 .....	.501	.423	.461	805.43
1902 .....	.442	.367	.408	909.17

<sup>a</sup>371.25 grains of pure silver are contained in a silver dollar.

*Coinage value in gold of an ounce of fine silver at the ratios 1:15-1:40.*

Ratio.	Value of an ounce of fine silver.	Ratio.	Value of an ounce of fine silver.	Ratio.	Value of an ounce of fine silver.
1 to 15	\$1.3780	1 to 23	\$0.8987	1 to 32	\$0.6459
1 to 15½	1.3396	1 to 23½	.8796	1 to 32½	.6360
1 to 15.988 (United States ratio)	1.2929	1 to 24	.8613	1 to 33	.6264
1 to 16	1.2919	1 to 24½	.8437	1 to 33½	.6171
1 to 16½	1.2527	1 to 25	.8268	1 to 34	.6080
1 to 17	1.2159	1 to 25½	.8106	1 to 34½	.5992
1 to 17½	1.1811	1 to 26	.7950	1 to 35	.5906
1 to 18	1.1483	1 to 26½	.7800	1 to 35½	.5823
1 to 18½	1.1173	1 to 27	.7656	1 to 36	.5742
1 to 19	1.0879	1 to 27½	.7517	1 to 36½	.5663
1 to 19½	1.0600	1 to 28	.7382	1 to 37	.5587
1 to 20	1.0335	1 to 28½	.7253	1 to 37½	.5512
1 to 20½	1.0083	1 to 29	.7109	1 to 38	.5439
1 to 21	.9843	1 to 29½	.7007	1 to 38½	.5369
1 to 21½	.9614	1 to 30	.6890	1 to 39	.5300
1 to 22	.9396	1 to 30½	.6777	1 to 39½	.5233
1 to 22½	.9187	1 to 31	.6668	1 to 40	.5168
		1 to 31½	.6562		

*Monetary systems, and approximate stocks of money in the aggregate and per capita, in the principal countries of the world, on December 31, 1903.*

Countries.	Monetary stand- ard.	Monetary unit.	Ratio be- tween gold and full le- gal-tender silver.	Ratio be- tween gold and lim- ited-tender silver.	Population.
United States	Gold	Dollar	1 to 15.98	1 to 14.95	79,800,000
Austria-Hungary	do	Crown		1 to 13.69	47,100,000
Belgium	do	Franc	1 to 15½	1 to 14.38	6,700,000
British Empire:					
Australasia	do	Pound sterling		1 to 14.28	5,500,000
Canada	do	Dollar		1 to 14.28	5,400,000
Cape Colony	do	Pound sterling		1 to 14.28	2,400,000
Great Britain	do	do		1 to 14.28	41,600,000
India	do	Pound sterling and rupee.	1 to 21.90	1 to 21.90	295,200,000
South African Republic	do	Pound sterling		1 to 14.28	1,200,000
Bulgaria	do	Lev	1 to 15½	1 to 14.38	3,700,000
Cuba	do	Peseta	1 to 15½	1 to 14.28	1,600,000
Denmark	do	Crown		1 to 14.88	2,600,000
Egypt	do	Piaster		1 to 15.68	9,800,000
Finland	do	Markkaa		1 to 15.50	2,700,000
France	do	Franc	1 to 15½	1 to 14.38	38,900,000
Germany	do	Mark		1 to 15.95	56,400,000
Greece	do	Drachma	1 to 15½	1 to 14.38	2,400,000
Haiti	do	Gourd	1 to 15½	1 to 14.88	1,000,000
Italy	do	Lira	1 to 15½	1 to 14.38	32,500,000
Japan	do	Yen		1 to 28.75	47,600,000
Netherlands	do	Florin	1 to 15½	1 to 15.13	5,300,000
Norway	do	Crown		1 to 14.88	2,200,000
Portugal	do	Milreis		1 to 14.09	5,400,000
Roumania	do	Lei	1 to 15½	1 to 14.38	6,000,000
Russia	do	Ruble		1 to 23.24	130,900,000
Servia	do	Dinar	1 to 15½	1 to 14.38	2,500,000
South American States	do <sup>a</sup>	Peso	1 to 15½	1 to 14.38	38,800,000
Spain	do	Peseta	1 to 15½	1 to 14.38	18,600,000
Sweden	do	Crown		1 to 14.88	5,200,000
Switzerland	do	Franc	1 to 15½	1 to 14.38	3,300,000
Turkey	do	Piaster		1 to 15.09	24,000,000
Central American States	Silver <sup>b</sup>	Peso			4,200,000
China	do	Tael			330,100,000
Mexico	do	Peso	1 to 16½	1 to 16½	13,600,000
Siam	Gold	Tical			6,300,000
Straits Settlements <sup>f</sup>	Silver	Dollar			5,100,000
Total					1,285,600,000

<sup>a</sup> Except Bolivia and Colombia.

<sup>b</sup> Except Costa Rica and British Honduras, gold-standard countries.

*Monetary systems, and approximate stocks of money in the aggregate and per capita, in the principal countries of the world, on December 31, 1903.*

Countries.	Monetary stand-ard.	Monetary unit.	Stock of gold.	Stock of silver.		
				Full tender.	Limited tender.	Total.
United States	Gold	Dollar	\$1,248,000,000	\$573,200,000	\$100,100,000	\$673,300,000
Austria-Hungary	do	Crown	<i>a</i> 283,000,000		<i>a</i> 81,100,000	81,100,000
Belgium	do	Franc	<i>c</i> 16,000,000	<i>b</i> 20,000,000	<i>c</i> 5,600,000	<i>b c</i> 25,600,000
British Empire						
Australasia	do	Pound sterling	<i>a</i> 128,600,000		<i>a</i> 6,100,000	<i>a</i> 6,100,000
Canada	do	Dollar	<i>b</i> 33,800,000		<i>a</i> 6,700,000	<i>a</i> 6,700,000
Cape Colony	do	Pound sterling	<i>b</i> 37,500,000		<i>b</i> 1,000,000	<i>b</i> 1,000,000
Great Britain	do	do	<i>b</i> 548,100,000		<i>a</i> 116,800,000	<i>a</i> 116,800,000
India	do	Pound sterling and rupee.	<i>a</i> 63,200,000	<i>a</i> 515,800,000		<i>a</i> 515,800,000
South African Republic.	do	Pound sterling	<i>b</i> 29,200,000		<i>b</i> 1,200,000	<i>b</i> 1,200,000
Bulgaria	do	Lev	<i>c</i> 1,000,000	<i>b</i> 2,000,000	<i>c</i> 2,900,000	<i>b c</i> 4,900,000
Cuba	do	Peseta	<i>b</i> 2,000,000		<i>b</i> 1,500,000	<i>b</i> 1,500,000
Denmark	do	Crown	<i>a</i> 15,500,000		<i>a</i> 5,900,000	<i>a</i> 5,900,000
Egypt	do	Piaster	<i>b</i> 30,000,000		<i>a</i> 6,400,000	<i>a</i> 6,400,000
Finland	do	Markka	<i>c</i> 4,100,000		<i>c</i> 600,000	<i>c</i> 600,000
France	do	Franc	<i>b</i> 947,700,000	<i>a</i> 373,500,000	<i>a</i> 46,300,000	<i>a</i> 419,800,000
Germany	do	Mark	<i>b</i> 763,500,000	<i>a</i> 62,800,000	<i>a</i> 144,700,000	<i>a</i> 207,500,000
Greece	do	Drachma	<i>c</i> 200,000	<i>b</i> 500,000	<i>b</i> 1,000,000	<i>b</i> 1,500,000
Haiti	do	Gourd	<i>a</i> 1,000,000	<i>a</i> 1,000,000	<i>a</i> 1,200,000	<i>a</i> 2,200,000
Italy	do	Lira	<i>a</i> 107,700,000	<i>b</i> 16,000,000	<i>a</i> 21,700,000	<i>a b</i> 37,700,000
Japan	do	Yen	<i>a</i> 62,600,000		<i>a</i> 30,400,000	<i>a</i> 30,400,000
Netherlands	do	Florin	<i>a</i> 21,300,000	<i>a</i> 52,600,000	<i>a</i> 4,000,000	<i>a</i> 56,600,000
Norway	do	Crown	<i>a</i> 8,200,000		<i>a</i> 3,500,000	<i>a</i> 3,500,000
Portugal	do	Milreis	<i>a</i> 5,300,000		<i>a</i> 6,500,000	<i>a</i> 6,500,000
Roumania	do	Lei	<i>c</i> 14,300,000		<i>c</i> 800,000	<i>c</i> 800,000
Russia	do	Ruble	<i>a</i> 746,200,000		<i>a</i> 104,600,000	<i>a</i> 104,600,000
Servia	do	Dinar	<i>c</i> 1,900,000		<i>c</i> 1,700,000	<i>c</i> 1,700,000
South American States.	do <i>e</i>	Peso	<i>a</i> 77,600,000	<i>a</i> 4,000,000	<i>a</i> 16,200,000	<i>a</i> 20,200,000
Spain	do	Peseta	<i>a</i> 75,800,000		<i>a</i> 173,700,000	<i>a</i> 173,700,000
Sweden	do	Crown	<i>a</i> 17,800,000		<i>a</i> 7,000,000	<i>a</i> 7,000,000
Switzerland	do	Franc	<i>b</i> 29,900,000		<i>f</i> 10,700,000	<i>d</i> 10,700,000
Turkey	do	Piaster	<i>b</i> 50,000,000	<i>b</i> 30,000,000	<i>b</i> 10,000,000	<i>b</i> 40,000,000
Central American States.	Silver <i>g</i>	Peso	<i>a</i> 2,000,000	<i>a</i> 7,000,000		<i>a</i> 7,000,000
China	do	Tael		750,000,000		750,000,000
Mexico	do	Peso	<i>b</i> 8,600,000	<i>a</i> 106,000,000		<i>a</i> 106,000,000
Siam	Gold	Tical	<i>b</i> 1,000,000	<i>a</i> 193,000,000		<i>a</i> 193,000,000
Straits Settlements <sup>h</sup>	Silver	Dollar		<i>a</i> 30,000,000	<i>a</i> 6,900,000	<i>a</i> 36,900,000
Total			5,382,600,000	2,737,400,000	926,800,000	3,664,200,000

*a* Information furnished through United States representatives.

*b* Estimate, Bureau of the Mint.

*c* L'Economiste Européen, January, 1902 (stock in banks).

*d* Report of head commissioner of paper currency.

*e* Except Bolivia and Colombia.

*f* C. Cramer Frey.

*g* Except Costa Rica and British Honduras, gold-standard countries.

*h* Includes Straits Settlements, the Malay States, and Johore (Straits Settlements Currency Committee, May, 1903).

*Monetary systems, and approximate stocks of money in the aggregate and per capita, in the principal countries of the world, on December 31, 1903.*

Countries.	Monetary standard.	Monetary unit.	Uncovered paper.	Per capita.			
				Gold.	Silver.	Paper.	Total.
United States	Gold	Dollar	\$456,100,000	\$15.64	\$8.44	\$5.71	\$29.79
Austria-Hungary	do	Crown	<sup>a</sup> 46,600,000	6.01	1.72	.99	8.72
Belgium	do	Franc	<sup>b</sup> 108,300,000	2.39	3.82	16.16	22.37
British Empire:							
Australasia	do	Pound sterling		23.38	1.11		24.49
Canada	do	Dollar	<sup>a</sup> 56,900,000	6.26	1.24	10.54	18.04
Cape Colony	do	Pound sterling		15.62	.42		16.04
Great Britain	do	do	<sup>a</sup> 117,900,000	13.18	2.80	2.83	18.81
India	do	Pound sterling and rupee.	<sup>a</sup> 32,400,000	.21	1.75	.11	2.07
South African Republic.	do	Pound sterling	<sup>b</sup> 1,000,000	24.33	1.00		25.33
Bulgaria	do	Lev		.27	.78	.27	1.32
Cuba	do	Peseta	<sup>a</sup> 7,800,000	1.25	.94		2.19
Denmark	do	Crown		5.96	2.27	3.00	11.23
Egypt	do	Piaster	<sup>b</sup> 9,100,000	3.06	.65		3.71
Finland	do	Markaa	<sup>a</sup> 158,200,000	1.52	.22	3.37	5.11
France	do	Franc	<sup>a</sup> 184,100,000	24.36	10.79	4.07	39.22
Germany	do	Mark	<sup>a</sup> 48,700,000	13.54	3.68	3.26	20.48
Greece	do	Drachma	<sup>a</sup> 3,500,000	.08	.63	20.29	21.00
Haiti	do	Gourde	<sup>a</sup> 171,300,000	1.00	2.20	3.50	6.70
Italy	do	Lira	<sup>a</sup> 61,300,000	3.31	1.16	5.27	9.74
Japan	do	Yen	<sup>c</sup> 20,800,000	1.31	.64	1.29	3.24
Netherlands	do	Florin	<sup>a</sup> 7,900,000	4.02	10.68	3.92	18.62
Norway	do	Crown	<sup>a</sup> 63,000,000	3.73	1.59	3.59	8.91
Portugal	do	Milreis	<sup>b</sup> 8,100,000	.98	1.20	11.67	13.85
Roumania	do	Lei		2.38	.13	1.35	3.86
Russia	do	Ruble	<sup>a</sup> 4,300,000	5.70	.80		6.50
Servia	do	Dinar	<sup>a</sup> 1,082,700,000	.76	.68	1.72	3.16
South American States.	do <sup>d</sup>	Peso	<sup>a</sup> 142,900,000	2.00	.53	27.90	30.43
Spain	do	Peseta	<sup>a</sup> 29,000,000	4.08	9.34	7.68	21.10
Sweden	do	Crown	<sup>a</sup> 20,700,000	3.42	1.35	5.58	10.35
Switzerland	do	Franc		9.06	3.24	6.27	18.57
Turkey	do	Piaster	<sup>a</sup> 30,200,000	2.08	1.67		3.75
Central American States.	Silver <sup>e</sup>	Peco		.48	1.66	7.19	9.33
China	do	Tael			2.27		2.27
Mexico	do	Peso	<sup>a</sup> 54,000,000	.63	7.79	3.97	12.39
Siam	Gold	Tical	<sup>a</sup> 2,600,000	.16	30.63	.41	31.20
Straits Settlements. <sup>f</sup>	Silver	Dollar	<sup>a</sup> 4,100,000		7.23	.80	8.03
Total			2,933,500,000	4.19	2.85	2.28	9.32

<sup>a</sup> Information furnished through United States representatives.

<sup>b</sup> L'Economiste Européen, January, 1902 (stock in banks).

<sup>c</sup> Estimate, Bureau of the Mint.

<sup>d</sup> Except Bolivia and Colombia.

<sup>e</sup> Except Costa Rica and British Honduras, gold-standard countries.

<sup>f</sup> Includes Straits Settlements, the Malay States, and Johore (Straits Settlements Currency Committee, May, 1903).

NOTE.—The value of the monetary stock of silver-standard countries has not been changed to conform to the decline in silver values. The monetary stock of Mexico and other countries where the Mexican dollar circulates is given in Mexican dollars.

*Theoretical parities of the principal gold coins of the world.*

Descriptive.	United States.	Russia.	England.	Latin Union.
		<i>Ruble.</i>		<i>Francs.<sup>a</sup></i>
I. Gold dollar and cents of the United States. (1 gold dollar=23.22 troy grains of fine gold; 5,760 troy grains=373.24195 grams; hence a gold dollar=1.504631611 grams of fine gold) ..	\$1.00	0.5145673	£4.866564	0.1929526
II. Russian ruble and kopecks. (1 ruble = $\frac{1}{10}$ of an imperial; 1 imperial = 261.36 doli, or 11.61351571875 grams of fine gold; <sup>b</sup> 1 ruble=17.424 doli of fine gold) ..	1.94337999	1.00	9.45758222	.37498022
III. English pence. (1 penny= $\frac{1}{240}$ of a pound sterling, and 1,869 pounds sterling=40 troy pounds of gold. $\frac{1}{11}$ , 0.916 $\frac{1}{2}$ fine; 1 troy pound=373.24195 grams; a sovereign (£1)=7.32238532 grams of fine gold) ..	49.316	25.376464	240	9.5157
IV. Francs and centimes. (The gold 20-franc piece contains $\frac{18.0}{91}$ grams of fine gold) ..	5.18262	2.666807	25.22155	1.00
V. German Empire. Mark and pfennig. (1 crown or 10 marks contains $\frac{19.29}{100}$ grams of fine gold) ..	4.19792	2.160113	20.429455	.81
VI. Netherlands. Florins and cents. (The 10-florin piece contains 6.048 grams of fine gold) ..	2.4878	1.2801494	12.1071186	.48003072
VII. Austria. Crowns and hellers. (1 crown=100 hellers; 10 crowns contain 3.04878 grams of fine gold) ..	4.93519247	2.5394891	24.0174277	.9522582
VIII. Portugal. (1 crown of 10 milreis=16.257083 $\frac{1}{2}$ grams of fine gold) ..	.9255	.476244	4.504	.178582
IX. Japan. Yen and sen. (20 gold yens=16.6665 grams of gold 0.900 fine; 1 yen contains 0.7499925 grams of fine gold) ..	2.006119915	1.0323228	.76327806	.38710064

<sup>a</sup> One Russian pound=409.5124 grams.<sup>b</sup> Or Italian lira, new drachma; Roumanian lei; Finnish mark, or Spanish peseta.

*Theoretical parities of the principal gold coins of the world—Continued.*

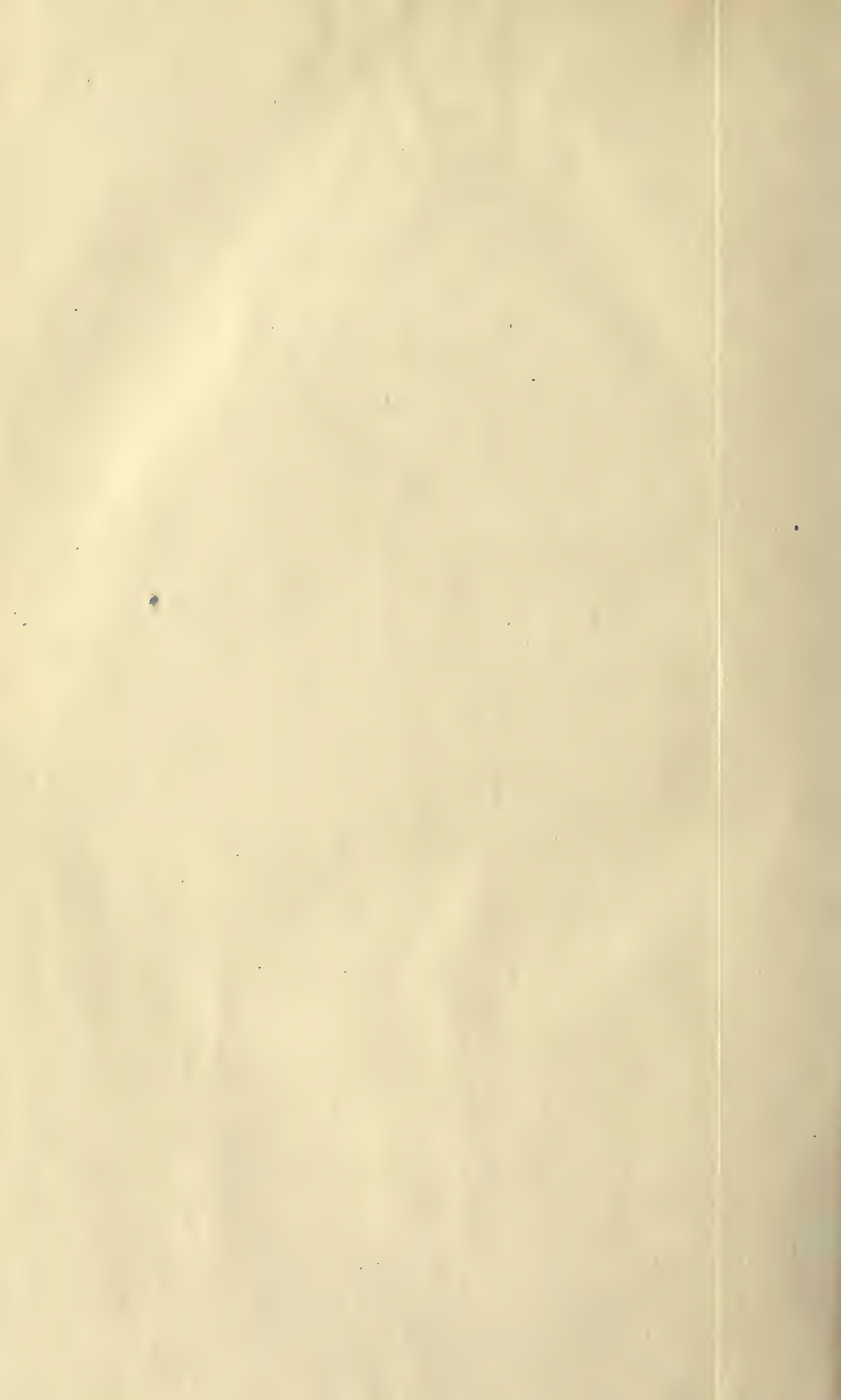
Descriptive.	German Empire.	Nether- lands.	Austria.	Portugal.	Japan.
	<i>Mark.</i>	<i>Florin.</i>	<i>Crown.</i>	<i>Crown.</i>	<i>Yen.</i>
I. Gold dollar and cents of the United States. (1 gold dollar=23.22 troy grains of fine gold; 5,760 troy grains=373.24195 grams; hence a gold dollar=1.504631611 grams of fine gold).....	0.23821	0.402	0.20262634	10.8047	0.498455
II. Russian ruble and kopecks. (1 ruble = $\frac{1}{10}$ of an imperial; 1 imperial = 261.36 doli, or 11.61351571875 grams of fine gold; <sup>a</sup> 1 ruble=17.424 doli of fine gold).....	.46293855	.78115879	.39377998	20.9976252	.9686892
III. English pence. (1 penny= $\frac{1}{240}$ of a pound sterling, and 1,869 poundssterling=40 troy pounds of gold, $\frac{1}{12}$ , 0.916 $\frac{1}{2}$ fine; 1 troy pound=373.24195 grams; a sovereign (£1)=7.32238532 grams of fine gold).....	11.74774	19.82305	9.99274373	532.84549	24.581907
IV. Francs and centimes. (The gold 20-franc piece contains $\frac{149}{31}$ grams of fine gold).....	$\left. \begin{array}{l} 1.2345679 \\ 100/81 \end{array} \right\}$	$\left. \begin{array}{l} 2.0832 \end{array} \right\}$	1.050135	55.997	2.5833075
V. German Empire. Mark and pfennig. (1 crown or 10 marks contains $\frac{1000}{279}$ grams of fine gold).....	1.00	1.687392	.8506096	45.3572625	2.092479075
VI. Netherlands. Florins and cents. (The 10-florin piece contains 6.048 grams of fine gold).....	.5926305	1.00	.5040974	26.880098	1.24006696
VII. Austria. Crowns and hellers. (1 crown=100 hellers; 10 crowns contains 3.04878 grams of fine gold).....	1.1756274	1.983744	1.00	53.323242	2.45997599
VIII. Portugal. (1 crown of 10-milreis=16.257083 $\frac{1}{2}$ grams of fine gold).....	.22047	.372022	1.8755355	10.00	.46133275
IX. Japan. Yen and sen. (20 gold yens=16.6665 grams of gold 0.900 fine; 1 yen contains 0.7499925 grams of fine gold).....	.47790203	.80640806	.40650806	21.676327	1.00

<sup>a</sup> Or Italian lira, new drachma; Roumanian lei; Finnish mark, or Spanish peseta.

















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